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FILED

JUL 24 2000

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P.O. Box 360
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Missouri Public
Service Commission

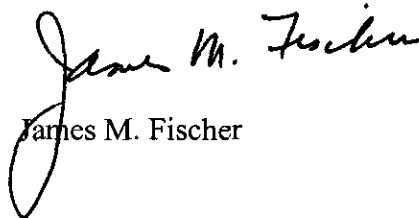
RE: *Missouri-American Water Company*
Case No. WR-2000-281

Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter are the original and eight (8) copies of the Initial Brief of St. Joseph Area Public Water Supply Districts. A copy of the foregoing Initial Brief has been hand-delivered or mailed this date to parties of record.

Thank you for your attention to this matter.

Sincerely,


James M. Fischer

/jr
Enclosures

cc: Parties of Record

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

FILED

JUL 24 2000

**Missouri Public
Service Commission**

**In the Matter of Missouri-American Water)
Company's Tariff Sheets Designed to)
Implement General Rate Increases for)
Water and Sewer Service Provided to)
Customers in the Missouri Service Area)
of the Company)**

Case No. WR-2000-281

INITIAL BRIEF

OF

ST. JOSEPH AREA PUBLIC WATER SUPPLY DISTRICTS

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**BEFORE THE PUBLIC SERVICE COMMISSION
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**INITIAL BRIEF
OF
ST. JOSEPH AREA PUBLIC WATER SUPPLY DISTRICTS**

COME NOW Intervenors Public Water Supply District No. 1 of Andrew County, Public Water Supply District No. 2 of Andrew County, Public Water Supply District No. 1 of DeKalb County, and Public Water Supply District No. 1 of Buchanan County (collectively referred to herein as "St. Joseph Area Public Water Supply Districts" or "Water Districts"), and for their Initial Brief state as follows:

RATE DESIGN

I. EXECUTIVE SUMMARY

From the perspective of the St. Joseph Area Public Water Supply Districts, rate shock is the primary public policy issue that needs to be addressed in this proceeding. As discussed below, the potential rate increases to the rural residential and small commercial customers around the St. Joseph area served by the Water Districts could be 268% (Tr. 993), unless the Commission adopts appropriate public policies to mitigate this rate shock! The St. Joseph Area Public Water Supply Districts strongly believe that the Commission should continue to

follow its policy of Single Tariff Pricing ("STP") for MAWC since this public policy is designed to mitigate rate shock as well as achieve other significant public policy objectives discussed below. As the Commission has previously found, "the proposed move toward single tariff pricing for Missouri-American and all of its districts, as jointly agreed to by the Staff, Missouri-American, and OPC, and as, to some degree, supported by all intervenors, is therefore in the public interest." (Report and Order, Case No. WR-95-205, p. 33). In addition, any rate increase authorized by the Commission should be spread on an across-the-board basis throughout the Company's existing rate schedules without making inter-class revenue shifts.

To change the rate design policy in favor of District Specific Pricing ("DSP") or to add a Capital Addition Surcharge to the St. Joseph District rates to pay for capital investments at this point in time would be the "worst of all possible worlds" for the St. Joseph customers. It would be unfair and unreasonable to make such a policy change in midstream of the construction cycle since the St. Joseph District has been supporting other districts' capital investments for years, and now it is the St. Joseph area's turn to have its facilities upgraded. The record indicates that the public was lead to believe that the costs of the new St. Joseph treatment facilities would be included in rate base using an approach that would spread those costs throughout the Company's service area as had been done in the past (Tr. 169, 791), and produce rate increases in the range of 30-35% for the St. Joseph area. (Vol. 8, Tr. 61, 792). The record also indicates that the public in the St. Joseph District has not been informed that the rate increase to the St. Joseph District could be 122% or more. (Tr. 796). The Company's Customer Notice to its St. Joseph customers in this proceeding indicated that the proposed increase in this case is approximately 53.97%. (Tr. 168-69). Under these circumstances, it would be particularly unfair to change the public policy in favor of DSP or a Capital Addition

Surcharge approach at this moment in time. Under either DSP or a Capital Addition Surcharge approach, the rate increases for the St. Joseph District, as a whole, would be in the 87%-90% range. (Ex No. 42, St. Joseph Schedule WRH 2-1; Tr. 165; Ex No. 10, p. 19). Such increases are nearly triple the rate increases that the St. Joseph customers were lead to believe would result from the construction of the St. Joseph treatment plant when it was first considered. Even today, customers in St. Joseph have not been notified that the rate increases for the St. Joseph District could be substantially more than 50%. (Tr. 792, 796).

As explained by Staff witness Hubbs, "Single-tariff pricing is not a here today, gone tomorrow kind of rate design." (Tr. 988-89). It would be unfair to swing back and forth on the STP issue, depending upon the strength of the political winds that happen to be blowing at any moment in time. The Commission should "stay the course" and assess the public interest from a long term perspective. As explained below, STP produces benefits for all districts over the long term. However, if the Commission waivers on this public policy approach, then inequities will result in both the long term and the short term periods.

If, notwithstanding the strong public policy arguments that support continuation of STP, the Commission determines that a public policy change is appropriate, it would be more equitable to continue STP in this proceeding and announce that future capital investments will be reflected in rates using a DSP or a Capital Addition Surcharge approach. The St. Joseph Area Water Districts must emphasize, however, that they are *not* recommending that the Commission depart from STP in the future. However, if the Commission chooses to modify its existing rate design policy on this issue, then it should be done on a prospective basis only. Any other approach will appear to the St. Joseph area to be an *ex post facto* change of rate design policy that will adversely impact the St. Joseph customers and the area's economy.

II. THE COMMISSION HAS PREVIOUSLY ADOPTED AND UTILIZED SINGLE TARIFF PRICING FOR MAWC AND ITS PREDECESSOR, MISSOURI CITIES WATER COMPANY.

The Single Tariff Pricing Issue has a long regulatory history with MAWC and its predecessor, Missouri Cities Water Company ("Missouri Cities"). Its origin dates back to the Missouri Cities Water Company rate case (Case No. WR-89-178), in 1989. Although the Commission policy has been developed in gradual steps, it has been a progression that eventually lead to the adoption of Single Tariff Pricing. In fact, in the Company's last rate case, Case No. WR-97-237, the Commission specifically approved rates that fully utilized Single Tariff Pricing throughout MAWC's service area. In order to fully understand the Commission's adoption of Single Tariff Pricing, a brief summary of previous cases on this issue may be helpful.

In Case No. WR-89-178, Missouri Cities proposed a system of uniform rates that set uniform service charges for all districts, along with a differential volumetric rate for softened water versus unsoftened water, and higher rates for Brunswick. However, the settlement in Case No. WR-89-178 did not adopt uniform rates or make any significant progress toward STP.

In Case No. WR-90-236, Missouri Cities again proposed uniform rates with an "equalization" rate that was designed to maintain the same district specific rates as were approved in Case No. WR-89-178. After considering the evidence in the record, the Commission adopted the uniform rates with the equalization adjustment, stating:

The Commission has reviewed the evidence in this matter and finds that the proposal to establish a system-wide rate for water services is reasonable. These tariffs would not make everyone's water bill the same. This proposal would only make any future rate increases the same. That is, current differences in rates among the districts would remain the same but the increases would be spread equally among all customers. The Commission finds also that the proposal to establish equalization rates to maintain the current

differentials between Company districts is also reasonable. The Commission agrees with Public Counsel that the proposal will allow Company to spread future increases in rates on a system-wide basis while maintaining the current rate differential which will reduce rate shock in future cases and limit cross-subsidization. Spreading the costs to all Company customers will also allow Company greater flexibility in timing plant additions.

The Commission agrees with Public Counsel that the equalization rates should stay in effect until some future date. Even though an equalization rate might change because of changed billing determinants, the Commission finds that the current rate differential should be maintained. This matter can be reviewed in some future rate case.

30 Mo.P.S.C. (N.S.) at 365.

In the next Missouri Cities rate case, Case No. WR-91-172, the Commission continued to support the concept of system-wide rates for Missouri Cities:

The Commission continues to support the concept of system-wide rates for Company, and in this respect is of the opinion that Staff's proposal to establish a system-wide flat rate for Company's minimum monthly charge and private fire charge is a step in the right direction.

1 Mo.P.S.C.3d at 147.

The Commission also found that the recommendation of Platte County Intervenors to immediately go to STP ". . . is premature." However, the Commission continued to be supportive of the movement in the direction of STP, and specifically stated that: **"The aim of the parties in the rate design case, including Public Counsel, was to formulate a design which would eventually lead to uniform Company-wide rates and, according to Public Counsel, 'single tariff' filings."** (emphasis added) (Ex. No. 16, p. 11).

In Case No. WR-92-207, Missouri Cities again proposed to spread the increase to all districts under a uniform rate, but to maintain the equalization rate components. The Commission adopted this position. However, in so doing, it also rejected Platte County's proposal to immediately adopt

"full uniform rates," finding the ultimate effect of the proposal "would clearly be 'rate shock' for the Warrensburg Division." (2 Mo.P.S.C.3d at 89). The Commission also concluded it was "far too early to contemplate reducing equalization revenues since MCWC has not completed its first 'building cycle' since the implementation of uniform rates barely a year ago in Case No. WR-91-172." *Id.*

In Case No. WR-95-205, the first case following the purchase of Missouri Cities by MAWC, MAWC proposed a phase-in of STP for the seven districts of the merged Company. The Company, Commission Staff, and Public Counsel joined in a Stipulation and Agreement in an effort to resolve the issue of STP by implementing a three step Phase-In Plan. The Phase-In Plan was specifically approved by the Commission. (Report and Order, Case No. WR-95-205, p. 29-33).

Under Phase I, a uniform customer service charge and uniform private fire service charges were established for all districts. A uniform volumetric charge was also established for the St. Joseph, Joplin, Parkville, and St. Charles districts. Finally, volumetric charges for Brunswick were reduced, and the various blocks in other districts were adjusted, pursuant to the Stipulation and Agreement. (Report and Order, Case No. WR-95-205, p. 32-33). Phase I was completed when the tariffs were filed in Case No. WR-95-205.

Under Phase II, the volumetric rates at Brunswick, Mexico, and Warrensburg were reduced to bring them 50 percent (50%) of the difference between Phase I tariffs and the uniform tariff for the Joplin, Parkville, St. Charles, and St. Joseph group. *Id.* Phase II became effective twelve months after the effective date of the tariffs in Case No. WR-95-205.

Single tariff pricing was expected to be achieved with the completion of Phase III. The Commission described the expected timing of this final step as follows:

The final step toward single tariff pricing would be made in the following rate case. The final rate design in that case would fully equalize all volumetric rates.

Report and Order, Case No. WR-95-205, p. 33. After describing the signatory parties' proposed Phase-In Plan, the Commission specifically approved this approach for finally achieving STP, stating:

The Commission finds the proposed move toward single tariff pricing for Missouri-American and all of its districts, as jointly agreed to by the Staff, Missouri-American and OPC and as, to some degree supported by all Intervenors, is therefore in the public interest.

Final adoption of STP (Phase III) was achieved in Case No. WR-97-237, MAWC's last rate case. In MAWC's last rate case, the Commission approved the use of STP throughout MAWC's service areas. This culminated a regulatory plan that had been implemented over many years by numerous Commissions and Commissioners.

III. WITHOUT THE CONTINUATION OF SINGLE TARIFF PRICING, THE RATE SHOCK ON ST. JOSEPH, BRUNSWICK, MEXICO, AND PARKVILLE CUSTOMERS WILL BE SUBSTANTIALLY INCREASED

During the hearing, it was apparent that it is difficult to compare the rate design proposals of the various parties since some of the data in the record assumed: (1) different revenue requirements; (2) different phase-in proposals; and (3) different assumptions on inter-class revenue shifts. However, at the request of Vice Chair Drainer, the Company and Public Counsel produced Exhibit Nos. 78, 79, and 80, which help to compare their specific rate design proposals on a more comparable basis. In addition, the Schedules to Staff witness Hubbs' Rebuttal Testimony (Ex. No. 42) also are extremely useful in comparing the rate impact of the adopting District Specific Pricing, including the inter-class revenue shifts, on the various Districts as well as specific customer

classes. For purposes of this Initial Brief, the St. Joseph Area Public Water Supply Districts will discuss the various proposals, assuming that the Company or Staff revenue requirement position is adopted. The phase-in proposals and prudency adjustments proposed by the Commission Staff, Public Counsel, and Municipal and Industrial Intervenor will be discussed separately from the rate design proposals. The following section will address and summarize the rate impacts of the various parties' proposals upon the St. Joseph Districts and other Districts.

A. Impact of Various Rate Design Proposals

1. Single Tariff Pricing

As discussed at length above, the Commission has accepted and utilized Single Tariff Pricing for MAWC and its predecessor, Missouri Cities Water Company. If the Commission continues to utilize Single Tariff Pricing, then the increase in rates for the St. Joseph District and all other districts would be approximately 50%. (Tr. 162). This proposal is supported by MAWC, the City of St. Joseph, and the St. Joseph Area Public Water Supply Districts. (Tr. 185, 86-90, 74-85). As explained herein, STP has been the rate design policy of this Commission for MAWC and its predecessor in the past, and should continue to be the rate design policy in this proceeding.

2. District Specific Pricing—Municipal and Industrial Intervenor's Proposal

Under the Municipal and Industrial Intervenor's rate design proposal, the Commission would apparently approve District Specific Pricing without first adjusting existing rates to eliminate the existing revenue support being provided by St. Joseph to other Districts. Under this proposal, the St. Joseph District would receive a 122% increase in rates to reflect the additional revenue requirement impact of the St. Joseph treatment plant. (Ex. No. 57, Schedule 3-RD, p. 1 of 2). Other districts would also receive substantial increases to reflect their District Specific costs:

Brunswick (243.5%), Mexico (101.3%), and Parkville (87.7%). **According to Mr. Harwig's calculations, four out of MAWC's seven districts would be substantially worse off under DSP than under STP.** Only Joplin (5.9% reduction), St. Charles (13.4% increase), and Warrensburg (37.9% increase) would be marginally better off under DSP at this specific moment in time. (Ex. No. 57, Schedule 3-RD, p. 1 of 2). However, as explained below, the Company expects to make additional capital investments in all its Districts so the perceived benefits of DSP on Joplin, St. Charles, and Warrensburg may be illusory over time.

Although the St. Joseph Area Water Districts strongly disagree with the Municipal and Industrial Intervenors regarding the adoption of DSP, we do agree with the Municipal and Industrial Intervenors that it is totally inappropriate to introduce inter-class revenue shifts in this case when the rate shock on all customers will already be substantial. Any rate increase authorized for any District in this case should be spread on an across-the-board basis throughout the Company's existing rate schedule. (Ex. No. 58, p. 8). No inter-class shifts of revenue should be made in this case. Otherwise, the rate shock on some classes of customers will be substantially exacerbated.

3. District Specific Pricing -- Commission Staff's Proposal

Under the Commission Staff's rate design proposal, the Commission would approve District Specific Pricing, but factor out of the St. Joseph District's rates the revenue support that the St. Joseph District presently provides other Districts. (Tr. 1052-55). Under this approach, the St. Joseph District, as a whole, would receive an increase of approximately 87%. (Tr. 165). In addition, the Commission Staff has proposed the creation of specific customer classes¹ and then

¹ MAWC presently does not separate its customers into customer classes as proposed by the Commission Staff. Instead, MAWC has a unified declining block rate structure with different customer charges, depending upon the size of the meter. (Tr. 174).

making substantial inter-class shifts among the various customer classes. If this Staff proposal were adopted, the impacts upon individual customer classes in the St. Joseph District would be substantially exaggerated as follows:

<u>Class</u>	<u>Total Revenue % Increase</u>
Residential	49.94%
Commercial	79.43%
Industrial	199.55%
Other Public Authorities	107.18%
Sales For Resale	268.61%
Private Fire	<14.24%>
Miscellaneous	90.00%

(Ex. No. 42, St. Joseph Schedule WRH 2-1; Tr. 165-66).

During questioning by Commissioner Murray, Water District witness Helen Price, explained that the Water Districts' customers are essentially residential in nature and that such inter-class shifts are inappropriate in this proceeding:

[Commissioner Murray]: And what is the make-up of your district in terms of customers, just generally?

[Helen Price]: My district has 1,238 customers. 1,206 of those are residential who have an approximate usage of about 5,800 gallons per month. We have 32 that we call commercial which really that is not correct because we only have three or four that actually would use water in the production of their business. The others mostly is just restroom, lunch room and that type of thing but they are a business, so we listed them as commercial. So most of the rate increase will be applied to, essentially, residential customers.

[Commissioner Murray]: Okay. And is it your position that because of the significant nature of the increases sought here and the complexity of this case in general that we should not be looking at any shifts in class cost of service?

[Helen Price]: Because of the enormous increase and as you said, the complexity of it, I believe that there should not be any change in rate classes at this time.

[Commissioner Murray]: Thank you for your testimony.

(Tr. 488-89).

Other districts would also receive substantial increases under the Staff's approach: Brunswick (265.49%), Mexico (82.86%), and Parkville (112.09%). **According to Mr. Hubbs' calculations, four out of MAWC's seven districts would be substantially worse off under DSP than under STP.** Only Joplin (8.46% reduction), St. Charles (5.60% increase), and Warrensburg (30.72% increase) would be somewhat better off under DSP at this specific moment in time. (Ex. No. 42, Schedules WRH 2-1 for each district). Again, these perceived rate benefits from DSP, however, are likely to wither over time.

In the past, the Commission Staff has supported STP in previous proceedings. (Tr. 988). In fact, Staff witness Hubbs is not philosophically opposed to using STP, and recognizes that the Commission has widely used system-wide pricing for other regulated industries:

[Fischer]: Q. Would it be safe for me to conclude that you philosophically don't have a problem with the use of single-tariff pricing in an appropriate circumstance?

[Hubbs]: A. That's true.

[Fischer]: Q. In fact, the commission has used this tool for years as it's regulated the various utilities under its jurisdiction; is that right?

[Hubbs]: A. The ones that I'm familiar with yes.

[Fischer]: Q. Would you agree that if we reviewed the rate structures of the electric, natural gas and telephone companies under the Commission's jurisdiction, we'd be hard pressed to find many examples of companies that serve more than one community that use community-specific pricing in Missouri?

[Hubbs]: A. Yes.

(Tr. 990).

Staff witness Hubbs also recognized that the 268% rate increase being suggested for the St. Joseph Public Water Supply Districts is "beyond the bounds of gradualism.":

[Fischer]: Q. Would you agree that an increase of 268 percent for my clients, the public water supply districts around St. Joseph, would also be . . . beyond the bounds of gradualism?

[Hubbs]: A. Yes. The initial implementation of that would be beyond the bounds of gradualism.

[Fischer]: Q. And that would also be true in the Brunswick area for a 478 percent increase for the sales for resale class?

[Hubbs]: A. Yes, sir.

(Tr. 994).

4. Public Counsel's Rate Design Proposal

Based upon the pre-filed Direct Testimony of James A. Busch (Ex. No. 27), it appears that the adoption of Public Counsel's approach would increase the rates to the St. Joseph District, as a whole, by 92.69%, assuming the Company's revenue requirement was adopted and before adjustments for Public Counsel's phase-in proposal. (Ex. No. 27, Schedule JAB-2). The rates in Brunswick, Mexico, and Parkville would increase by 194.87%, 81.09%, and 79.97%, respectively. *Id.* **According to Mr. Busch's calculations, four out of MAWC's seven districts would be substantially worse off under DSP than under STP. Id.**

Public Counsel has also proposed substantial inter-class revenue shifts that exacerbate the rate shock on some customer classes. For example, Public Counsel's proposal results in increases in average residential rates of 53.85%, and increasing rate impacts to 84.08% for larger usage customers in the St. Joseph District. (Ex. No. 78, St. Joseph, p. 3). In addition, Public Counsel witness Hu's cost of service study results, if utilized in rates, would substantially increase the rates of the Sales for Resales Class (which are the Public Water Supply Districts that serve rural residential and small commercial customers) by five (5) times the rate increases being proposed by Public Counsel for MAWC's residential customers. (Ex. No. 30, Schedule HH DIR-4). Such dramatic inter-class revenue are not appropriate and should not be adopted in this proceeding.

5. MAWC's Capital Addition Surcharge Alternatives

Although MAWC supports STP as its primary rate design recommendation in this proceeding (Tr. 185, 190), MAWC witness Stout also discussed two alternatives that were designed to determine a surcharge to be applied to the bills in the St. Joseph District in order to recover capital investment costs of the St. Joseph treatment plant from the customers in the St. Joseph District. Under Mr. Stout's first alternative, St. Joseph customers would receive an 89.63% increase in their rates, while other districts would receive only a 28% increase. (Ex No. 9, pp. 18-19; Tr. 185-86). Under Mr. Stout's second alternative, St. Joseph customers would receive a 79.35% increase in their rates, while other districts would receive only a 33% increase. (Ex No. 9, p. 19; Tr. 186). Under these alternative proposals, the Company is not proposing to implement inter-class revenue shifts.

As discussed below, this Capital Addition Surcharge approach would be the worst of all possible worlds for the St. Joseph District. Existing subsidies reflected in St. Joseph's existing rates would still be incorporated into the St. Joseph District rates. The \$31 million of additional capital

investments in other Districts in this case would also be included in St. Joseph's rates. In the future, St. Joseph's rates would also increase to reflect new capital investments in other districts, unless the investments were large enough to trigger the adoption of a new Capital Addition Surcharge for those districts. While such an approach may relieve the political pressure in this case being generated by some parties, it is not fair or equitable to the St. Joseph District which has been supporting other districts for years. Under MAWC's Capital Addition Surcharge approach, St. Joseph would continue to help support future investments in other districts unless the threshold trigger for a Capital Addition Surcharge was met.

During cross-examination, Mr. Stout clearly indicated that MAWC preferred to maintain STP as its rate design policy. (Tr. 185-90). However, he also indicated that, if the Commission determined that a Capital Addition Surcharge approach was a preferred alternative, then it would be preferable to clearly announce that the new policy would be used in the future, but not attempt to implement the new policy in this case:

[Fischer]: I also wanted to follow up with you on the questions from Commissioner Murray regarding whether you were comfortable in recommending that the surcharge be – surcharge approach be approved on a going-forward basis. And if I understood your answer, you said, well, you'd prefer that single-tariff pricing be used but you could use the surcharge on a going-forward basis; is that true?

[Stout]: Yes.

[Fischer]: If that approach was adopted, would it be correct that the Commission would be consistent with single-tariff pricing practices in this case but would announce that in the future an approach like your surcharge approach would be used for major capital investments?

[Stout]: That's what I understood her to mean by saying going forward.

* * *

[Fischer]: And from St. Joseph's perspective wouldn't the approach that Commissioner Murray is discussing be much more preferable than attempting to put a surcharge on them in this case when they've already been paying a single-tariff pricing rates for other district expenditures?

[Stout]: I would agree with that.

[Fischer]: That would avoid the double whammy effect?

[Stout]: Yes.

(Tr. 342-43).

Given the substantial rate impact on St. Joseph, Brunswick, Parkville, and Mexico from the above-discussed proposals that deviate from the Commission's existing STP practices, the St. Joseph Area Water Districts would respectfully urge the Commission to "stay the course" and continue to use STP.

IV. THE COMMISSION HAS ALREADY FOUND THAT THE ST. JOSEPH DISTRICT HAS BEEN SUPPORTING THE RATES OF OTHER DISTRICTS

In its Report and Order in Case No. WO-98-204, the Commission carefully considered the results of district-specific cost of service studies that were prepared by the various parties to the case. The Commission observed that the St. Joseph District "has been paying rates that are approximately ten to eleven percent (10-11%) higher than its district-specific costs." (Report and Order, Case No. WO-98-204, p. 8.) The Commission also noted:

Schedule A of the Hearing Memorandum in this proceeding summarizes the results of the parties' various cost of service studies. The results are helpful in demonstrating the cost of service on a district-specific basis. For example, the cost of service studies generally show that the St. Joseph District has been paying rates that are approximately ten to eleven percent (10-11%) higher than its district-specific costs. To a lesser extent, the Joplin and Warrensburg districts have also been supporting the other districts of St. Charles,

Parkville, Mexico, and particularly Brunswick, when viewed on a district-specific basis.

The Commission generally agrees with the Staff's observation that the cost of service information in this proceeding might serve as a useful benchmark for evaluating STP or DSP in MAWC's next rate case. For example, the data discussed above concerning the St. Joseph area could be relevant if the Commission is requested to revert to DSP when the St. Joseph plant comes on line. (emphasis added)

Given the fact that the St. Joseph District has been paying rates substantially above its district-specific costs for years to support other districts, it is not reasonable or appropriate for other districts to now demand that DSP be adopted at the moment in time when the St. Joseph District is about to receive its share of the benefits of the cost averaging inherent in the Commission's past policies of utilizing STP for MAWC.

V. SINGLE TARIFF PRICING CONTINUES TO BE IN THE PUBLIC INTEREST

In this proceeding, Dr. Janice A. Beecher presented a thoughtful and thorough public policy analysis of the STP issue. (Ex. No. 58). Dr. Beecher's extensive background as a former researcher for the National Association of Regulatory Utility Commissioners' ("NARUC") research institute, the National Regulatory Research Institute ("NRRI") on water utility issues provides the Commission with an excellent resource as it considers the public policy aspects of this important issue. Dr. Beecher managed the water research program of NRRI from 1988 to 1995, and previously served as a policy analyst and advisor to the Chairman of the Illinois Commission. (Ex. No. 58, p. 2). Recently, Dr. Beecher prepared an extensive report entitled "Consolidated Water Rates: Issues and Practices in Single Tariff Pricing" (Ex. No. 58, Schedule JB-2), which was sponsored by the National Association of Regulatory Utility Commissioners ("NARUC") and the U.S. Environmental Protection Agency.

Dr. Beecher's testimony in this proceeding provides an objective discussion of the advantages and disadvantages of STP, from a former regulator's perspective. She also reports the results of a recent survey of state Public Service Commissions regarding STP issues.

A. Advantage of Single Tariff Pricing

Dr. Beecher summarized the principal advantages of STP as follows:

The primary advantages of single-tariff pricing are that it can lower administrative and regulatory costs, enhance financial capacity and capital deployment, achieve rate and revenue stability, and improve service affordability for customers of very small (or extremely small) water systems. The water industry's rising investment needs correlate with the interest in rate consolidation. A leading argument for single-tariff pricing made by multi-system water utilities is that each individual system eventually will require an infusion of capital for renovations and improvements; only the timing varies. Equalizing rates smoothes the effect of discrete cost spikes across systems and over time, much like insurance pooling. Single-tariff pricing also achieves equity to the extent that all customers of a given utility company pay the same price for comparable service.

* * *

Other secondary advantages of consolidated rates include improved regulatory compliance by water utilities, the provision of universal service to customers who desire and need water service, and coordinated water resource protection, management, and planning. Even without physical interconnection, regional utilities can play a role in defining regional communities within which environmental services are provided. A consolidated rate for a larger community of customers will be more sustainable over time than stand-alone rates for smaller communities.

(Ex. No. 58, p. 4).

Based upon the record in this proceeding, it is clear that the advantages discussed by Dr. Beecher will accrue to the benefit of MAWC and its ratepayers if the Commission continues to use STP in this proceeding. Most importantly, the adoption of STP for MAWC will encourage revenue stability and avoid customer rate shock. The adoption of STP in this proceeding will

benefit MAWC's St. Joseph, Brunswick, Parkville, and Mexico districts, thereby assuring the affordability of water to customers in these districts. In addition, the other longer term benefits discussed by Dr. Beecher will accrue to all districts of MAWC with the continuation of STP in the future.

The record is also replete with references to MAWC's need to make capital investments throughout its service territory. In this case, MAWC has made \$31 million of investment in districts outside of St. Joseph (Ex. No. 27, p. 10) in addition to the substantial investment in the St. Joseph treatment facility. In the Company's last rate case, the principal reason for the need for a rate increase was the capital additions made in other districts, particularly St. Charles. (Tr.180-81). As discussed by Dr. Beecher, a principal benefit of STP is that it smooths out the rate spikes that would naturally occur if separate rate structures were established for each community.

The Missouri Public Service Commission itself has already recognized many of the advantages discussed by Dr. Beecher:

STP yields benefits to the Company as well as to its customers. The Company benefits include ease of administration and recordkeeping as well as consolidation of customer service and management functions. Rate case efforts are also simplified for the Company and all of these savings translate into lower costs for the customers. This process should also serve to simplify the complexities usually involved in the regulatory process.

Report and Order, Case No. WR-95-205, p. 30.

B. Single Tariff Pricing Is A Legitimate Policy Tool Used By A Clear Majority of the States That Regulate Multi-System Water Utilities

In addition to her review of the public policy aspects of STP, Dr. Janice Beecher also presented the results of a survey of state public utility commissions with jurisdiction for water utilities regarding their respective policies related to STP. Of the thirty (30) commissions with

multi-system water utilities, twenty-five (25) have approved single tariff pricing for one or more utilities. (Ex. No. 58, p. 12-13, Schedule JB-2, p. 53-54). In the other five (5) states, the issue has never been raised. *Id.*

The various regulatory commission staff surveyed also identified the following arguments in support of an STP policy:

1. Mitigates rate shock to utility customers;
2. Lower administrative costs to utility customers;
3. Provides incentives for utility regionalization and consolidation;
4. Physical interconnection is not considered a prerequisite;
5. Improves service affordability for customers;
6. Addresses small-system viability issues;
7. Provides ratemaking treatment similar to that for other utilities;
8. Facilitates compliance with drinking water standards;
9. Overall benefits outweigh overall costs;
10. Promotes universal service for utility customers.
11. Lowers administrative cost to the commission;
12. Promotes ratepayer equity on a regional basis;
13. Encourages investment in the water supply infrastructure;
14. Promotes regional economic development;
15. Encourages further private involvement in the water sectors; and
16. Other: Can be consistent with cost of service principles.

Id. at 46.

Based upon the results of the nationwide survey, it is clear that Missouri is in the regulatory mainstream when it has used STP in past proceedings. The Water Districts respectfully urge the Commission to continue to stay in the regulatory mainstream in this case.

C. The Adoption of Single Tariff Pricing Will Help Mitigate Rate Shock in the Future.

The mitigation of rate shock to utility customers was the most often cited benefit of STP in the nationwide survey. (Ex. No. 58, p. 57). From the Water Districts' perspective, the mitigation of rate shock is an extremely important benefit for MAWC's customers, especially in light of the construction of the St. Joseph treatment plant and other future upgrades throughout the Company's service territory. As the Water Districts have already pointed out, St. Joseph rates may increase by 87% to 122% if District-specific pricing is adopted to reflect the cost of the St. Joseph treatment plant in rates. Clearly, an 87% to 122% increase in customers' rates would, by any measure, constitute "rate shock." However, if the Commission adopts Single Tariff Pricing, then the projected rate increase for St. Joseph and the other districts would be 50%. (Tr. 162). Although a 50% rate increase is very substantial, from the customers' perspective, it would be much more acceptable than the projected 122% increase if the District-specific pricing approach was used to reflect the St. Joseph addition in rates.

D. Single Tariff Pricing is Also Consistent With Pricing Policies in the Telecommunications, Electric, and Natural Gas Industries

In other regulated public utility industries, rates are not established on a community-by-community basis. (Tr. 990). In most instances, costs are widely averaged and public utilities often have one uniform rate structure that applies throughout their service territories. Such policies have been utilized to promote the public policy goal of universal service at reasonable and affordable rates. For example, in the telecommunications field, the principle of geographically

averaged long distance rates is so well established that it was codified in the Telecommunications Act of 1996.² Missouri statutes also strongly encourage the geographic averaging of interexchange rates.³

The Missouri Public Service Commission generally has not established local exchange rates on an exchange-by-exchange basis. (Tr. 190). Typically, the Commission has averaged statewide costs and established the same rates for local service throughout the service area, varying only by the calling scope of the exchange. *See Re Southwestern Bell Telephone Co.*, 23 Mo.P.S.C. (N.S.) 374, 390-91.

Similarly, in the electric and natural gas industries, the Commission has not required community-specific cost studies or community-specific rate structures. (Tr. 190). With rare exceptions, electric and natural gas rates⁴ have been developed to apply to customers in all service areas of the public utility. (Tr. 190). *See also Re Kansas City Power & Light Rate Design*, 25 Mo.P.S.C. (N.S.) 605, 627-28) (Rejecting establishment of urban and rural rates); *Re Tartan*

² Section 254(g) states:

Within 6 months after the date of enactment of the Telecommunications Act of 1996, the Commission shall adopt rules to require that the rates charged by providers of interexchange telecommunications services to subscribers in rural and high cost areas shall be no higher than the rates charged by each such provider to its subscribers in urban areas. Such rules shall also require that a provider of interstate interexchange telecommunications service shall provide such services to its subscribers in each State at rates no higher than the rates charged to its subscribers in any other State.

³ *See* Section 392.370(6), RSMo 1994, which exempts certain interexchange companies from filing cost studies to support their proposed rates, provided that they geographically average their rates.

⁴ Occasionally, the Commission has permitted local distribution companies to apply different Purchased Gas Adjustment factors to areas served by different interstate pipelines. However, even in those cases, the local distribution rates (non-gas portion) regulated by the Commission have generally been applied uniformly throughout the service area.

Energy, 3 Mo.P.S.C.3d 173, 180-81 (Adopting a single rate structure for eleven unserved municipalities).

If the Commission reaffirms its past decisions to implement Single Tariff Pricing for MAWC in this proceeding, it will be reaffirming a pricing policy that has been widely used in other regulated public utility industries to promote important public policy goals. The St. Joseph Area Water Districts believe that these policies have worked well in other industries and should continue to be utilized for the water industry.

VI. THE COMMISSION SHOULD REJECT THE RECOMMENDATIONS OF THOSE PARTIES WHO RECOMMEND A RETURN TO DISTRICT SPECIFIC PRICING

In this proceeding, the Municipal and Industrial Intervenors, Office of the Public Counsel, and Staff, to some extent, have advocated various positions designed to dissuade the Commission from following its past practice of using STP. The Water Districts would respectfully request the Commission to reject any attempts to return to the antiquated policy of DSP.

A. Single Tariff Pricing is Lawful

The Municipal and Industrial Intervenors have suggested in opening statements that the averaging of costs associated with STP is somehow unlawful. (Tr. 95-96, 110-12). The principal support for this position is their flawed interpretation of Section 393.130 that requires public utility rates to be "just and reasonable." Without citing Missouri case law to support their position, these parties have argued that the requirement of "just and reasonable" rates precludes STP since it would be unreasonable and violative of Section 393.130 to increase rates in one district to pay for improvements in other districts. Apparently, these Intervenors also believe that STP represents an unlawful "preference" for one community over another community. (Tr. 110-12).

This position flies directly in the face of decades of public utility ratemaking in Missouri that has widely averaged costs with the specific goal of ensuring that all rates are "just and reasonable" and reasonably affordable by Missouri citizens. Such averaging of costs has been utilized to promote universally available and widely affordable public utility services. *See also* Section 392.185(1) and (7), RSMo Cum. Supp. 1996. Rates have often increased when a public utility increases its rate base, even though that plant investment may have occurred elsewhere in the service area. However, to our knowledge, there is no Missouri case law that has held such ratemaking to be unlawful or unreasonable. To the contrary, the Missouri Supreme Court in *State ex rel. City of West Plains v. Public Service Commission*, 310 S.W.2d 925, 933 (Mo. banc 1958), has specifically upheld the use of "system-wide" rate structures:

We are able to discern no legitimate reason or basis for the view that a utility must operate exclusively either under a systemwide rate structure or a local unit rate structure, or the view that an expense item under a systemwide rate structure must of necessity be spread over the entire system regardless of the nature of the item involved. Experts in utility rates may well conclude that a 'hybrid system' or a 'modified system' of rate making, wherein certain expense items are passed on to certain consumers and certain items are thereby treated on a local unit basis and others on a systemwide basis, is the system which will produce the most equitable rates. And it would appear to be the province and duty of the commission, in determining the questions of reasonable rates, to allocate and treat costs (including taxes) in the way in which, in the commission's judgment, the most just and sound result is reached. And it may well be that gross receipts taxes paid by a utility, while labeled 'operation expense' on the books is not a true operational expense and should be treated differently in so far as concerns the source of the money with which that 'expense' is to be paid. And, in any event, the fact that an order may ignore 'the theory and practice of rate making and utility operation upon a systemwide basis' does not, standing alone, tend to demonstrate the unlawfulness or unreasonableness of that order.

The parties opposing STP also attempt to distinguish the water industry from the other regulated industries on the grounds that water districts are not interconnected or integrated in any

physical sense. This argument misses the point. Cost averaging is used by public policy makers to promote specific public policy and ratemaking goals, not engineering goals. Costs vary from community to community and state to state in all of the regulated industries. However, geographically averaged rates are used to transcend differences in technology or costs between the communities, thereby ensuring that all citizens have widely available and affordable public utility services. These public policy goals are no different in the water industry.

VII. THE COMMISSION'S POLICY REGARDING SINGLE TARIFF PRICING SHOULD BE CONSISTENT IN THE FUTURE.

Although there is an understandable tendency among regulatory agencies to reserve the right to decide issues differently in the future, it is also important to recognize, as Staff witness Randy Hubbs has correctly observed, that Single Tariff Pricing, by its nature, is not "a here today gone tomorrow type of rate design." (Tr. 988). During cross-examination Mr. Hubbs agreed that the Commission should not oscillate on this public policy from case-to-case:

[Fischer]: Q. Okay. Do you agree with this statement that single-tariff pricing is a not a here today, gone tomorrow kind of rate design?

[Hubbs]: A. Yes.

[Fischer]: Q. Okay. Would you also agree that it's really not fair or proper to have single-tariff pricing in one case, then go back to district specific in the next, and then go to single-tariff pricing again in the third?

[Hubbs]: A. I don't think that's a wise policy.

[Fischer]: Q. And are the reasons for that aimed at the impact it would have on customers if you oscillated a policy like that?

[Hubbs]: A. Yes.

(Tr. 988-89).

Sales for Resale customers in St. Joseph, the total rate increases would be in excess of 268% plus carrying costs. (Tr. 994). This magnitude of rate increases, even phased-in over five years, is "beyond the bounds of gradualism" (Tr. 994) and is totally unacceptable to the St. Joseph Area Water Districts. Such a rate increase, phased-in or not, would have a devastating impact upon the rural customers served by the St. Joseph Area Water Districts. As a result, the Water Districts would respectfully request that the Commission carefully consider the final rate impact upon the St. Joseph District and individual customer classes in addition to the magnitude of any annual rate increase approved by the Commission before any phase-in plan is approved.

PRUDENCY ADJUSTMENTS

The St. Joseph Area Public Water Supply Districts believe the Commission should include in rate base only those expenditures associated with the St. Joseph treatment plant that the Commission determines, based upon the competent and substantial evidence, are reasonable and prudent. The Water Districts will not specifically address in this Initial Brief any specific prudence adjustment being proposed by the Commission Staff, Public Counsel, or the Municipal and Industrial Intervenor, or otherwise recommend the appropriate valuation or capacity for the St. Joseph treatment plant to be included in rates at this time. However, the Water Districts reserve the right to address these issues, if necessary, in its Reply Brief.

CONCLUSION

In conclusion, the St. Joseph Area Public Water Supply Districts respectfully request the Commission to continue to follow its Single Tariff Pricing in this proceeding. The Commission has

previously recognized the public benefits of Single Tariff Pricing, and it should act consistently with its past decisions to ensure that the public interest is promoted in the future.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing Initial Brief of St. Joseph Area Public Water Supply Districts has been hand-delivered or mailed, First Class mail, postage prepaid, this 24th day of July 2000, to:

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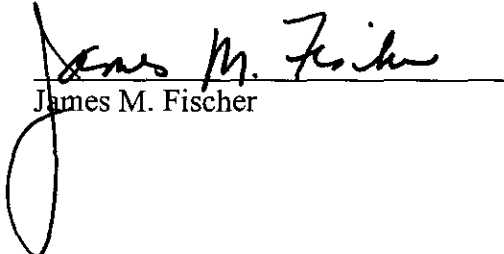
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