BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water Missouri American's Request for Authority to Implement a General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas	)))))	File No. WR-2015-0301

MIEC SUPPLEMENT TO THE JOINT INITIAL POST-HEARING BRIEF OF THE MISSOURI INDUSTRIAL ENERGY CONSUMERS, CITY OF JOPLIN, CITY OF ST. JOSEPH, CITY OF WARRENSBURG, AND CITY OF BRUNSWICK

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Attorneys for The Missouri Industrial Energy Consumers

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COMES NOW, the Missouri Industrial Energy Consumers and for its Supplement addressing solely the issue of Allocation of Purchased Fuel/Power Associated With Pumping, states as follows:

The Cost of Purchased Fuel/Power Associated with Pumping Should Be Allocated According to Factor 3

Missouri-American proposes to allocate the purchased fuel and power costs to pump water to classes based on an annual water volume allocator.[1] MIEC witness Brian Collins proposes that this expense be allocated consistent with the allocation of other pumping expenses and rate base associated with electric pumping equipment. Those expenses and rate base are correctly, and fairly and reasonably, allocated based on average flow and maximum day requirements.[2]

Collins reviewed Missouri-American's class cost of service study for the St. Louis Metro District sponsored by Missouri-American witness Herbert. Missouri-American's class cost of service study for the St. Louis Metro District utilizes the widely accepted Base-Extra Capacity method for *functionalizing, classifying* and *allocating* costs to Missouri-American's various

[1] Collins Direct, MIEC Ex. 5, p. 9, lines 18-19.
[2] Collins Direct, MIEC Ex. 5, p. 10, lines 12-14.

customer classes.[3] Under that method, investment in water utility plant and operating costs are first *functionalized* according to the role they play in providing water service: water supply, pumping, treatment, transmission, distribution, metering and billing. Next, these costs are *classified* into cost categories that reflect the causation of these costs: Base, or average day rates of flow; Extra Capacity-Maximum Day and Extra Capacity-Maximum Hour rates of flow; and Customer-related costs, such as metering and billing.

Collins generally agreed with the classifications and cost allocations in Missouri-American's cost of service study prepared by Herbert. However, Collins proposed a different allocation factor be used to allocate the costs associated with Purchased Fuel/Power for Pumping. Herbert allocated those costs on Factor 1, which allocates costs based only on class annual water volume. In doing so, Missouri-American did not properly differentiate between the costs it incurs based on its average daily usage on the one hand, and its peaking requirements on the other.[4] Missouri-American's pumping costs vary based on Missouri-American's customer peak demands, and its purchased fuel/power should accordingly be allocated on that same basis. That way, the cost causers, and not other ratepayers, are paying for the costs that they cause Missouri-American to incur during their peak usage of water.

Collins's position is fair and reasonable and supported by the American Water Works Association's Manual M-1, *Principles of Water Rates, Fees and Charges, Sixth Edition*, which states on page 65 that the extent to which power costs are allocated to extra capacity depends on the variations in electric demands incurred in pumping and the energy/demand electric rate structure that applies to pumping.[5] As a result, the same allocation factor used to allocate other

[3] Collins Direct, MIEC Ex. 5, p. 9, lines 5-7.
[4] Collins Direct, MIEC Ex. 5, p. 9, lines 20 – 22.
[5] Collins Direct, MIEC Ex. 5, p. 10, lines 5-9.

pumping expenses and the rate base associated with electric pumping equipment, Factor 3, should be used to allocate purchased fuel/power for pumping costs. Factor 3 is tied primarily to average flow and maximum day demand requirements. Rate J customers in the St. Louis Metro District are primarily manufacturing customers whose consumption of water is generally consistent throughout the year and not weather dependent. For example, the Rate J class has the *lowest* maximum day water usage to average day water usage ratio of the customer classes in the St. Louis Metro District.[6] Generally, the Rate J class' contribution to the Company's peak water demand at times when electric rates are more expensive is less as compared to other customer classes. Therefore, it is appropriate to allocate purchased fuel/power for pumping costs to classes partly on an extra capacity component since this would better reflect cost causation as compared to allocating these costs solely on annual water usage as proposed by the Company.

The results of the modified class cost of service study for the St. Louis Metro District as recommended by MIEC are shown on Schedule BCC-3. Based on MIEC's modifications to Missouri-American's cost of service study, St. Louis Metro District Rate J's cost of service is reduced by approximately $300,000 as compared to Missouri-American's calculated cost of service for Rate J.[7]

Conclusion

For the reasons set forth above, this Commission should modify the Missouri-American cost of service study to reflect Collins' recommended adjustment and reflect that adjustment in the rate for the St. Louis Metro District Rate J class the Commission sets in this case.

[6] Herbert Direct, MAWC Ex MAWC8, Schedule C-SLM, p. SLM-11.
[7] (Schedule BCC-2, Column 3, Line 11) - (Schedule BCC-3, Column 3, line 3) equals $7.0 million - $6.7 million, or approximately $300,000.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been emailed this 8th day of April, 2016, to all parties on the Commission's service list in this case.

/s/ Edward f. Downey