

**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)	

ST. JOSEPH RESPONSE TO REPORT AND ORDER

COMES NOW the City of St. Joseph, Missouri ("St. Joseph"), intervenor and a member of the "Coalition Cities" with Warrensburg and Jefferson City in this matter, and files its response to the Commission's Report and Order of May 2, 2018 herein, as follows:

Since the Year 2000, the City of St. Joseph has been uniquely hurt by the oft-vacillating decisions of the Public Service Commission of Missouri concerning the appropriate rate design for Missouri-American Water Company. In that year, the Public Service Commission halted its previous move toward Single-Tariff Pricing (STP) and decided that *District-Specific Pricing* was the proper rate design for the Company. As a result, the Commission approved water rate increases for the people of St. Joseph in the magnitude of 80% to 268% and declared them "just and reasonable." (WR-2000-281)¹

Then, in 2015, the Commission decided to make the people of St. Joseph *also* share in the costs of two *higher-cost* Missouri-American service areas, Platte County and Brunswick. (WR-2015-0301) In the instant case, Missouri-American asked the Commission to authorize a statewide tariff, or Single-Tariff Pricing. St. Joseph agreed

¹ The major issue in that case was rate-recognition of the costs of a new, \$70 million water treatment plant in St. Joseph.

that STP would be better than the existing three-district rate design, since it would relieve the citizens of St. Joseph from being the sole “deep-pocket” in existing District 2.

However, as part of a coalition of city intervenors in the case (the “Coalition Cities”), St. Joseph requested first that the Commission return to the 8-District rate design it had implemented in 2015 in Case No. WR-2015-0301. That rate design retained district-specific rates for each of the seven major service areas of MAWC, reflecting the historically and legally sound policy of assigning utility costs to the cost-causer to the greatest extent reasonably possible, while consolidating Brunswick and other, smaller (and newer) service areas into a District 8.

Instead of adopting either the Coalition Cities’ 8-District model or the Company’s proposal for statewide pricing, the Commission has ordered a new, hybrid rate design of its own creation, dividing MAWC into two, instead of three, rate districts. St. Joseph acknowledges that this 2-District rate design is more beneficial to St. Joseph than Staff’s proposed retention of the existing three-district model would have been, since additional customers will now be forced to help pay for the new Platte County treatment plant.² However, this new rate design continues to defy the “cost-causation” principle. The Coalition Cities maintain that the Commission should have reverted to the 8-District rate design supported by its expert witness, Mr. Michael J. McGarry. Sr.

Opponents of the Coalition Cities’ 8-District rate design proposal argued that the record lacked sufficient data to construct rates for the consolidated District 8. The

² St. Joseph notes that it remains the service territory within new District 2 with the most MAWC customers, although it will bear a smaller percentage of the entire cost burden of the new District 2 than it has in the existing District 2.

Coalition Cities urged the Commission to order Missouri-American and Staff to calculate those rates.³ It is obvious that the Company and Staff *could* have calculated the rates for the 8-District rate design just as effectively as it calculated rates for the new District 2 ordered by the Commission in this case. No party, nor evidence, proposed or supported the two-district rate design ordered by the Commission. Yet, in response to the *Report and Order*,⁴ the Company was able to calculate the cost of service for each discrete MAWC service area and consolidate, into the new District 2, the rates for all areas outside of St. Louis County, including the newest small service areas added by the Company since 2016. Given that fact, it does not follow that the Company and Staff could not have constructed the appropriate rates for an 8-District rate design, including consolidated rates for District 8.

If the Commission decided not to adopt the Coalition Cities' proposal in this case, it should have moved all the way to Single-Tariff Pricing, as it stated it wanted to do in its *Report and Order* in Case No. WR-2017-0301 in 2016, which was approved by the Commission on a vote of 5-0. Rather, the Commission decided that the Infrastructure System Replacement Surcharge (ISRS), which statutorily applies only to St. Louis County, prevented it from employing Single-Tariff Pricing in this case because doing so would be unfair to the MAWC customers in St. Louis County. Of course, the ISRS also

³ *Initial Post-Hearing Brief of St. Joseph, Missouri*, at Pages 13-14; *Reply Brief of St. Joseph, Missouri*, at Pages 5-6.

⁴ *Report and Order*, Page 31.

existed in 2016 when the Commission clearly stated that it would have moved to Single-Tariff Pricing if it had a sufficient record upon which to do so.⁵

In its *Report and Order* in the current case, the Commission states that, “customers in St. Louis County would be disadvantaged by being the only area paying the additional [ISRS] surcharge until costs can be included in rate base, while still contributing to improvements in other areas.”⁶ The citizens of St. Joseph can only wish that the Public Service Commission of Missouri would have shown similar concern for them at any time in the last 18 years.

The Commission went on to express its concern for small, troubled water systems and to say, “By combining Districts 2 and 3, the Company can still seek to acquire small struggling systems and make system improvements while avoiding rate shock.”⁷ By the Commission’s new rate design, the burden of absorbing most small, troubled water systems will *not* be borne by *all* Missouri-American customers, but only by those in the new District 2, since District 1 can only include St. Louis County. That said, the Commission’s conclusion parallels the sentiments of the citizens of St. Joseph regarding the “rate shock” they experienced when the Commission decided to increase rates in St. Joseph by 80% to 268% in Year 2000.

The Commission had an opportunity to ameliorate its historically inconsistent and unfair treatment of St. Joseph and the other Coalition Cities in this case by adopting

⁵ WR-2015-0301, *Report and Order*, p. 28 (issued May 26, 2016).

⁶ *Report and Order* at Page 30.

⁷ *Report and Order* at Page 31.

the Cities' proposal to create a working group to study the possibility of a rate-offset mechanism. 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 forced to also bear investments that only benefit customers in other cities and districts.⁸ Although the major capital improvements for which the Coalition Cities have been paying in water rates for years are not yet fully-depreciated, all costs reflecting those capital projects that have been recognized in MAWC's rates since those improvements became used and useful were borne solely by the customers in those service areas until at least 2016.⁹

It is fundamentally unfair for the citizens of St. Joseph to have been required to bear the full costs of the 1999 St. Joseph water treatment plant from Year 2000 to 2016, and then bear not only those costs, but also the lion's share of the costs of two higher-cost service areas, from 2016 to the present, and not receive some short-term mitigation as part of the transition to the new policy of water company cost consolidation. To mitigate that inequitable outcome, the Commission should have directed the creation of a working docket to develop a "rate-offset" mechanism as proposed by Mr. McGarry.¹⁰ A rate-offset mechanism is a reasonable and necessary transitional step to either continuation or expansion of a consolidated rate design in this case.

⁸ McGarry Surrebuttal, Exhs. 331C and 331P, p. 2, ll. 15-19.

⁹ Jenkins cross, T-625, l. 13 – T-626, l. 4.

¹⁰ McGarry Direct, Exh. 329, p. 14, l. 13 – p. 15, l. 22.

The proposal for establishment of a working docket to study the development of a workable rate-offset mechanism was supported by *all* municipal government intervenors in this rate case, including Joplin and Riverside. Notwithstanding, the Commission *summarily dismissed* the rate-offset mechanism concept. The Coalition Cities fully anticipated a more thorough and thoughtful consideration of this proposal by the Commission and are surprised and disappointed by the treatment given it in the *Report and Order*. It is difficult to see how a complete reading of the record in this case could reasonably lead to the Commission's finding that "such an offset mechanism would defeat the purpose of consolidated pricing and would be returning to district-specific pricing."¹¹ The Coalition Cities made it eminently clear that they were *not* advocating for a permanent, separate district-specific rate, but for a finite, transitional device designed solely to help mitigate the burden of having borne the full costs, as recognized in rates, of major infrastructure investments since those investments were made, before the Commission's more recent policy interest in consolidating all water system costs emerged.¹²

The Commission is obviously not averse to the creation of working dockets – it ordered one on the issue of lead service line replacements in the same *Report and Order*.¹³ In addition, the Stipulation and Agreement filed on March 1, 2018, and

¹¹ *Report and Order*, Page 26, Paragraph 52 and footnote 99.

¹² *See, Initial Brief of City of St. Joseph, Missouri*, Page 17.

¹³ *Report and Order*, Page 37, Ordered Section 7.

approved by the Commission, provides for the establishment of a working docket on the issue of inclining block rates.¹⁴

The *Report and Order* states: “The Commission is tasked with setting just and reasonable rates. [footnote omitted] This means the Commission must set rates that are ‘fair to both the utility and its customers.’”¹⁵ The City of St. Joseph submits that the oft-vacillating rate design decisions of the Public Service Commission since Year 2000 have *not* been fair to the customers of Missouri-American Water Company in St. Joseph. The City is deeply disappointed that, *at the very least*, its proposed rate offset mechanism was not given more serious attention and consideration by the Commission.

Respectfully submitted,

/s/ William D. Steinmeier

William D. Steinmeier, MoBar #25689
WILLIAM D. STEINMEIER, P.C.
2031 Tower Drive
P.O. Box 104595
Jefferson City, MO 65110-4595
Phone: 573-659-8672
Fax: 573-636-2305
Email: wds@wdspc.com

COUNSEL FOR THE
CITY OF ST. JOSEPH, MISSOURI

¹⁴ *Stipulation and Agreement*, filed March 1, 2018, Pages 6-7, Paragraph 18.

¹⁵ *Report and Order*, Page 30.

CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been served electronically on the PSC Staff Counsel's office (at staffcounsel@psc.mo.gov), on the Office of the Public Counsel (at opc@ded.mo.gov) and on parties of record on this 25th day of May 2018.

/s/ William D. Steinmeier

William D. Steinmeier