

Exhibit No.:
Issues: Cost of Service, Rate Design
Witness: Brian C. Collins
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: WR-2017-0285
Date Testimony Prepared: February 9, 2018

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

**In the Matter of Missouri-American Water
Company's Request for Authority to
Implement General Rate Increase for
Water and Sewer Service Provided in
Missouri Service Areas**

Case No. WR-2017-0285

Surrebuttal Testimony of

Brian C. Collins

On behalf of

Missouri Industrial Energy Consumers

February 9, 2018



Project 10440

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STATE OF MISSOURI)
) SS
COUNTY OF ST. LOUIS)

Affidavit of Brian C. Collins

Brian C. Collins, being first duly sworn, on his oath states:

1. My name is Brian C. Collins. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by Missouri Industrial Energy Consumers in this proceeding on their behalf.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. WR-2017-0285.
3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.

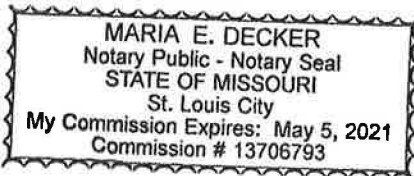


Brian C. Collins

Subscribed and sworn to before me this 9th day of February, 2018.



Notary Public



1 behalf of MAWC. I will also reply to the cost of service and rate design rebuttal
2 testimony of Dr. Geoff Marke on behalf of the Office of Public Counsel (“OPC”).

3 **RESPONSE TO MR. JENKINS**

4 **Q HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF MR. JAMES JENKINS**
5 **ON BEHALF OF MAWC?**

6 A Yes, I have.

7 **Q DOES MR. JENKINS CONTINUE TO SUPPORT CONSOLIDATION OF MAWC’S**
8 **THREE EXISTING PRICING DISTRICTS INTO A SINGLE PRICING DISTRICT?**

9 A Yes, he does.

10 **Q WHAT IS HIS PRIMARY REASON FOR HIS CONTINUED SUPPORT OF**
11 **CONSOLIDATED PRICING?**

12 A His primary stated reason for supporting consolidated pricing is the assertion that it is
13 appropriate public policy and promotes the public interest.

14 **Q HAS MR. JENKINS RAISED ANY NEW ARGUMENTS THAT HAVE CAUSED YOU**
15 **TO CHANGE YOUR RECOMMENDATION FOR CONTINUING TO MAINTAIN THE**
16 **THREE PRICING DISTRICTS AS APPROVED BY THE COMMISSION IN THE**
17 **LAST RATE CASE?**

18 A No. His rebuttal testimony does not plow any new ground. He continues to ignore
19 cost causation and the differences in cost of service that exist among the three
20 existing pricing districts. Contrary to Mr. Jenkins’ support for consolidated pricing, it is
21 appropriate to establish the three existing pricing districts’ rates on their respective

1 cost of service for the reasons described in my direct testimony, as well as the
2 testimonies of Staff witness James Busch and OPC witness Marke.

3 **Q DO YOU CONTINUE TO SUPPORT DISTRICT-SPECIFIC PRICING FOR THE**
4 **THREE CURRENT PRICING DISTRICTS ESTABLISHED BY THE COMMISSION IN**
5 **THE COMPANY'S PRIOR RATE CASE?**

6 A Yes, I do. For the reasons previously described in my direct and rebuttal testimonies,
7 I continue to recommend that the Company maintain the three pricing districts as
8 approved by the Commission and that the rates for each district be established based
9 on their respective cost of service.

10 **RESPONSE TO MS. HEPPENSTALL**

11 **Q HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF MS. CONSTANCE**
12 **HEPPENSTALL ON BEHALF OF MAWC?**

13 A Yes, I have.

14 **Q AT PAGE 12 OF HER REBUTTAL TESTIMONY, SHE DISMISSES DISTRICT-**
15 **SPECIFIC PRICING BECAUSE SHE CLAIMS THAT IT DOES NOT SOLVE**
16 **SUBSIDIES WITHIN A DISTRICT. HOW DO YOU RESPOND?**

17 A Ms. Heppenstall's argument with respect to district-specific pricing is a red herring.
18 District-specific pricing and intra-class subsidies within a district are two distinct and
19 separate issues. Ms. Heppenstall's argument should not be given any weight.

20 District-specific pricing ensures that a district's total cost of service is based on
21 the costs incurred to provide service to that particular district's customers. In other
22 words, district-specific pricing helps to eliminate inter-district subsidies.

1 After appropriately determining a district's specific cost of service, intra-district
2 subsidies, or subsidies that exist between classes within a district, can be mitigated
3 by ensuring that appropriate functionalization, classification, and allocation occur
4 within a district when allocating a particular district's specific cost of service to the rate
5 classes within a district.

6 **Q AT PAGE 13 OF MS. HEPPENSTALL'S REBUTTAL, WITH RESPECT TO HER**
7 **OPPOSITION TO DISTRICT-SPECIFIC PRICING, SHE INDICATES THAT THE**
8 **LACK OF INTERCONNECTION BETWEEN MAWC'S DISTRICTS IS IRRELEVANT**
9 **WITH RESPECT TO A DISTRICT'S COST OF SERVICE. HOW DO YOU**
10 **RESPOND?**

11 **A** As explained in my direct testimony, differences in costs for providing water service
12 do indeed exist between districts, such as differences in costs related to physical
13 characteristics that differ among water districts and sources of water supply, to name
14 a few. Due to lack of interconnections between the Company's three existing pricing
15 districts' water systems, the three pricing districts are unable to share treatment
16 facilities and sources of supplies, and have separate transmission and distribution
17 systems. As a result, it is appropriate to base these districts' rates on their respective
18 cost of service. To ignore these cost differences among the three existing water
19 districts is incorrect.

1 Q AT PAGE 15 OF MS. HEPPENSTALL'S REBUTTAL, SHE INDICATES THAT IF
2 DISTRICT-SPECIFIC PRICING IS APPROVED, RATES SHOULD BE SET
3 ACCORDING TO DISTRICT-SPECIFIC COST OF SERVICE STUDIES. DO YOU
4 AGREE?

5 A Yes. Each district's specific cost of service should be allocated to the classes within
6 each district based on cost of service studies that use appropriate functionalization,
7 classification, and allocation principles in allocating costs to customer classes.

8 Q AT PAGE 15 OF MS. HEPPENSTALL'S REBUTTAL, SHE INDICATES THAT
9 YOUR SUGGESTION FOR RATE MITIGATION TO ADDRESS AFFORDABILITY
10 FOR DISTRICTS IS CONTRARY TO YOUR ARGUMENTS AGAINST
11 CONSOLIDATED PRICING. DO YOU AGREE?

12 A No. As stated in my direct testimony, a district's rates should be based on its specific
13 cost of service. To the extent a district has internal affordability issues with respect to
14 establishing cost of service based rates, rate mitigation can be introduced after cost
15 of service is appropriately calculated for each district.

16 Consolidated district pricing introduces unjust subsidies among pricing
17 districts. While addressing affordability in a particular district at times may require a
18 subsidy between districts, such a subsidy should be introduced only after determining
19 the cost of service for each district.

20 Rate mitigation is a legitimate rate principle and is appropriate when deemed
21 necessary, but should only be implemented after the cost of service is appropriately
22 calculated for each district, not through consolidated pricing as proposed by the
23 Company. For several prior Company rate cases, the St. Louis County District
24 provided revenue subsidies to other districts, but only after the specific cost of service

1 was determined for all districts, including the St. Louis County District. This process
2 established in previous MAWC rate cases provides transparency and allows a
3 quantification of the specific subsidy between districts.

4 **RESPONSE TO DR. MARKE**

5 **Q HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF DR. GEOFF MARKE**
6 **FILED ON JANUARY 24 ON BEHALF OF OPC?**

7 A Yes, I have. Dr. Marke suggests that my position with respect to the allocation of
8 lead service line replacement costs is to allocate all service replacement costs to
9 residential customers, including those costs associated with non-residential services.

10 **Q IS DR. MARKE'S CHARACTERIZATION OF YOUR POSITION CORRECT?**

11 A No. To the extent there are lead service line replacement costs related to
12 non-residential customers, it would be appropriate and consistent with cost causation
13 to allocate those specific costs for non-residential services to non-residential
14 customers.

15 My direct testimony was based on my review of the order in WU-2017-0296.
16 Page 6 of that order implies that the costs associated with lead service line
17 replacements subject to the docket were related to only residential customers, and
18 not non-residential customers. For example, the order states the following related to
19 lead line replacement costs:

20 MAWC proposes to replace the entire lead portion of service lines
21 in St. Louis County from the newly installed water main to the
22 customer's home when service lines containing lead are
23 discovered.

1 Q DOES MS. HEPPENSTALL INDICATE HOW THE COSTS ASSOCIATED WITH
2 LEAD SERVICE LINE REPLACEMENT COSTS WOULD BE ALLOCATED TO
3 CLASSES?

4 A Yes, she does. At page 17 of her testimony, she states that lead service line
5 replacements costs would be allocated to customers based on the weighted number
6 of services, or service equivalents. She indicates that this approach is consistent with
7 MAWC's historical allocation of costs associated with service lines.

8 Q DO YOU AGREE WITH MS. HEPPENSTALL'S PROPOSED APPROACH TO THE
9 ALLOCATION OF LEAD SERVICE LINE REPLACEMENT COSTS TO CLASSES?

10 A No, I do not. I recommend that the cost of lead service line replacement costs be
11 directly assigned to the classes responsible for the costs. Direct assignment of these
12 unique costs is preferable to the historical allocation because it will better ensure that
13 costs follow the benefits.

14 Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

15 A Yes, it does.

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