

**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 STATEMENT OF POSITIONS PART TWO**

COMES NOW the City of St. Joseph, Missouri (hereinafter referred to as "St. Joseph"), by and through counsel, and files its Statement of Positions in this matter. References are to 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".

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

**ISSUES ADDRESSED**

(from *List of Issues, Order of Witnesses, Order of Cross-Examination and Order of Opening Statements*, filed February 15, 2018)

**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?

**St. Joseph 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, II. 1-8 and footnote 10; MJM-13, I. 10 – MJM-14, I. 4; **McGarry Rebuttal**, p. 4, II. 16-17 and footnote 5, p. 5, II.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, I. 27 through MJM-11, II. 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, I. 1 – p. 14, I. 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, I. 3 – p. 7, I. 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, I. 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?

#### **St. Joseph 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 borne 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, l. 13 – MJM-15, l. 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, ll. 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, l. 22 – MJM-15, l.6; **McGarry Rebuttal**, p. 11, l. 13 – p. 12, l. 4; **McGarry Surrebuttal**, p. 2, ll. 8-12, 20-21, p. 5, l. 17 – p. 11, l. 20).

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

#### **St. Joseph 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, ll. 5-13, p. 14, ll. 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, ll. 1 – p. 13, l. 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.

**OTHER ISSUES**

The City of St. Joseph reserves the right to take positions not stated herein on any other issue in this case.

Respectfully submitted,

***/s/ William D. Steinmeier***

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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@wdspsc.com

COUNSEL FOR THE CITY OF ST.  
JOSEPH, MISSOURI

**CERTIFICATE OF SERVICE**

I hereby certify that the undersigned has caused a complete copy of the attached document to be electronically filed and served on the Commission's Office of General Counsel (at [gencounsel@psc.mo.gov](mailto:gencounsel@psc.mo.gov)), the Office of Public Counsel (at [opcservice@ded.mo.gov](mailto:opcservice@ded.mo.gov)), counsel for Missouri-American, and all counsel of record on this 21<sup>st</sup> day of February 2018.

***/s/ William D. Steinmeier***