

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

In the Matter of the Application of Ozark)	
Meadows, Aqua Development Company,)	
dba Aqua Missouri, Inc. Request for)	Case No. SR-2010-0023
Increase in Annual Sewer System)	
Operating Revenues MPC Sewer Utility)	
Small Company Rate Increase Procedures.)	

In the Matter of Aqua RU, Inc. dba Aqua)	
Missouri Request for Increase in Annual)	
Water System Operating Revenues MPSC)	Case No. WR-2010-0025
Water Utility Small Company Rate)	
Increase.)	

In the Matter of Aqua Missouri, Inc (CU))	
Request for Increase in Annual Sewer)	
System Operating Revenue MPSC Sewer)	Case No. SR-2010-0026
Utility Small Company Rate Increase)	
Procedures.)	

In the Matter of Aqua Missouri, Inc (CU))	
Request for an Increase in the Annual)	
Water System Operating Revenues MPSC)	Case No. WR-2010-0027
Water Utility Small Company Rate)	
Increase Procedures.)	

THE OFFICE OF THE PUBLIC COUNSEL’S BRIEF

COMES NOW the Office of the Public Counsel (Public Counsel) and for its Brief states as follows:

1. On July 15, 2009, Aqua Development Company, dba Aqua Missouri, Inc.; Aqua RU, Inc., dba Aqua Missouri; and Aqua Missouri, Inc. (CU) (collectively referred to as “Aqua”) filed the above stated small company rate increase requests, seeking increases in the water and sewer rates for various service territories.

2. On March 15, 2010, the Missouri Public Service Commission (Commission) issued its *Order Directing Filing* in which the parties were ordered to file briefs no later than September 1, 2010, delineating the legal arguments and the social policy implications associated with the issue of whether the Commission should grant Aqua Development Company, d/b/a Aqua Missouri, Inc., Aqua RU, Inc. d/b/a Aqua Missouri, and Aqua Missouri, Inc. the authority to, or require it to, consolidate all of its rate districts for the purpose of setting rates.

3. Single-tariff pricing (STP) is defined as the use of a unified rate structure for multiple water or sewer systems that are owned and operated by a single utility, but that may or may not be physically interconnected. Under single-tariff pricing, all customers of the utility pay the same rate for service, even though the individual systems providing service may vary in terms of operating characteristics and costs. In this way, costs are averaged across systems and equally allocated to each customer.

4. District Specific Pricing (DSP) is defined as a rate structure where direct costs associated with a specific district are recovered from that district. In DSP, common corporate costs are distributed throughout the system to each district for recovery in rates.

5. There is no statute in Missouri that expressly prohibits STP and case law allows the use of STP in Missouri. STP is lawful in Missouri and could be utilized in a future rate case if requested by Aqua and if the Commission makes a determination that it is the most just and reasonable rate design for the utility.

6. In general, Public Counsel supports the continuation of pricing that is based on district specific costs in cases where costs among districts differ substantially. STP is not appropriate for application to Aqua's distinct, diverse, and non-interconnected systems. DSP is the most just and reasonable rate design for application to Aqua as it is currently situated.

7. Aqua's multiple rate districts are stand-alone systems that share only a limited amount of overhead costs. The rate districts have substantially different characteristics including the type of service, source of supply, processing and treatment requirements, and distribution characteristics. Additionally, there is clear evidence that the quality attributes of the finished product differ by rate district. The local public hearing transcripts attest to the fact that customers perceive significant differences in the quality of the utility service delivered in their rate district as opposed to the service delivered elsewhere. Given the disparity in capital improvements and other cost characteristics exhibited between Aqua's rate districts, revenue recovery should reflect district specific costs and should not be based on simplistic company-wide cost of service. In this case, DSP is the only way to ensure that the rates are just and reasonable for customers in each of Aqua's rate districts.

8. DSP has many advantages over STP. For example, moving each district's rate revenue closer to its district specific cost can work to reduce market distortions by reducing incentives for making excessive district specific investments. Also, the decision to remain with district specific cost recovery seems to better reflect the sentiment received in public comments indicating that districts generally are willing to pay their own cost of service.

9. Aligning district rate revenue with district costs also reduces subsidization. The result of averaging costs and dividing them between all customers is that some customers will pay rates below costs but some customers will pay rates in excess of costs. Because of the disparity in capital improvements and other cost characteristics exhibited between Aqua's rate districts, STP would result in subsidies from the customers of the other rate districts to the customers of rate districts with greater costs. Therefore, Aqua's costs of providing water and sewer services are most appropriately recovered from the district causing the cost.

10. One concern of DSP is that a significant capital improvement in one rate district could cause rate shock for the customers. In previous cases, Public Counsel has argued for flexibility of strict DSP when reasonably necessary based on consideration of all relevant factors. However, any flexibility of strict DSP must ensure significant movement towards cost of service among the rate districts while also balancing rate shock and other equity concerns of the customers.

WHEREFORE, Public Counsel respectfully submits its brief.

Respectfully submitted,

OFFICE OF THE PUBLIC COUNSEL

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By:_____

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to the following this 1st day of September 2010:

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