

Exhibit No.:
Issues: Class Cost of Service, Rates
Witness: Hubbs, Wendell R.
Sponsoring Party: MoPSC Staff
Case Nos.: WR-2000-281 & SR-2000-282

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

FILED

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Missouri Public
Service Commission

MISSOURI-AMERICAN WATER COMPANY

WATER & SEWER RATE CASE

**CASE NOS. WR-2000-281
& SR-2000-282**

DIRECT TESTIMONY

OF

WENDELL R. HUBBS

Jefferson City, Missouri
April, 2000

1 1990, I held the position of Assistant Manager-Rates in the Gas Department where my duties
2 consisted of tariff review, rate design, cost of service, accounting and administrative
3 functions. From November 1990 till May 1995, I held the position of Assistant Manager-
4 Rates in the Energy Department where my duties were expanded to include electric and
5 steam operations. From May 1995 till January 1998, I held the position of Regulatory
6 Auditor IV in the Rates section of the Energy Department where my duties consisted of
7 application analysis, tariff review, rate design, cost of service and accounting functions. In
8 January 1998, I assumed my current position in the W/S Department where my duties
9 consist of application analysis, tariff review, rate design, cost of service and accounting
10 functions.

11 Q. What is the purpose of your testimony?

12 A. As set out in the testimony of Staff Witness Doyle Gibbs, the Commission's
13 Staff (Staff) has determined the cost of service applicable to Missouri-American Water
14 Company (MAWC or Company) providing service to its Missouri customers. That cost of
15 service determination was made on a total company basis, as well as on an operating district
16 basis.

17 My testimony addresses the allocation of the cost of service to the
18 Company's various rate classes and also addresses the development of the customer rates
19 necessary to recover the costs allocated to each customer class. For the purposes of

1 customer class allocations and rate design, I am proposing that both be done utilizing the
2 "district specific" cost of service computations, rather than the total company cost of service.

3 Q. How did you utilize the district cost of service information just discussed to
4 allocate the costs to the separate customer classes?

5 A. I allocated each district's cost of service to each class in the district using the
6 "base-extra capacity method". Various cost of service components were allocated to the
7 customer classes based on data pertaining to operating costs, operating revenues, system
8 capacity and customer usage, which I received from the Company and from other Staff
9 members.

10 Q. Is the class allocation method you used consistent with that filed by the
11 Company's witness, Mr. William M. Stout in his direct testimony in this proceeding?

12 A. Yes, for the most part the class allocations are consistent, with the exception
13 that my study is on a district specific basis rather than on a total company basis.

14 Q. Please describe the "base-extra capacity allocation method" you are using.

15 A. The "base-extra capacity allocation method" is used to allocate each
16 operating district's cost of service to the customer classifications in that specific district. The
17 results of such allocations yield the relative cost levels that should be recovered from each
18 customer class. Rates are then designed to recover the allocated cost for each class.

1 In the "base-extra capacity method" costs are usually separated into four
2 primary cost components: "base costs"; "extra capacity costs"; "customer costs"; and "direct
3 fire protection costs".

4 "Base costs" tend to vary with water consumption and are allocated to
5 customer classifications on this consumption basis.

6 "Extra capacity costs" are those costs associated with meeting the
7 requirements that are in excess of the average load conditions. They are divided into costs
8 to meet "maximum-day extra demand" and "maximum-hour extra demand".

9 "Customer costs" comprise those costs associated with customers irrespective
10 of consumption. They include customer accounting and collection expenses, meter reading
11 expenses and billing expenses. They also include 'return on plant' related to meters and
12 services.

13 "Fire protection costs" are those costs that can be directly assigned to fire
14 protection functions.

15 Q. Please describe the development of the class cost of service amounts.

16 A. Allocation of each type of cost is accomplished through the application of
17 class allocation factors. These class allocation factors are applied to the annualized and
18 normalized expenses, plant, rate base, return of investment and return on investment.

19 Q. How are rates per class per district determined?

1 A. Rates are developed to recover from each class the cost of service assigned
2 to each class in the district.

3 Q. Have you completed your class cost of service study and rate design
4 calculations?

5 A. No, I have not. I will file my study and calculations as late-filed exhibits
6 when they are completed.

7 Q. Do you have an estimate of when you will be able to file the late-filed
8 exhibits?


9 A. I expect to have them completed and filed within the next five to six business
10 days.

11 Q. Does this conclude your pre-filed direct testimony in this case?

12 A. Yes, except for the late-filed exhibits.

In the Matter of Missouri-American Water Company's)	
Tariff Sheets Designed to Implement General Rate)	Case No. WR-2000-281
Increases for Water and Sewer Service provided to)	Case No. SR-2000-282
customers in the Missouri Service area of the Company)	(Consolidated)

STATE OF MISSOURI)
) ss
COUNTY OF COLE)


Wendell R. Hubbs

Joyce C. Reuner
Notary Public

My commission expires _____