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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF

WATER AND SEWER DEPARTMENT

DIRECT TESTIMONY

OF

JAMES A. BUSCH

**LIBERTY UTILITIES (MISSOURI WATER) LLC/OZARK
INTERNATIONAL, INC.**

CASE NO. WM-2018-0023

Jefferson City, Missouri
February 2018

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8
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TABLE OF CONTENTS OF
DIRECT TESTIMONY
OF
JAMES A. BUSCH
LIBERTY UTILITIES (MISSOURI WATER) LLC/OZARK INTERNATIONAL,
INC.
CASE NO. WM-2018-0023

BACKGROUND 2

CONSOLIDATED RATES 5

SUMMARY 14

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

DIRECT TESTIMONY

OF

JAMES A. BUSCH

**LIBERTY UTILITIES (MISSOURI WATER) LLC/OZARK INTERNATIONAL,
INC.**

CASE NO. WM-2018-0023

Q. Please state your name and business address.

A. My name is James A. Busch and my business address is P. O. Box 360, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am the Regulatory Manager of the Water and Sewer Unit, Regulatory Review Division of the Missouri Public Service Commission (Commission).

Q. Briefly describe your work experience and education.

A. I hold Bachelor of Science and Master of Science degrees in Economics from Southern Illinois University at Edwardsville. From April 2005 through January 2008, I worked as a Regulatory Economist III with the Energy Department of the Commission. Previously, I worked as a Public Utility Economist with the Office of the Public Counsel (Public Counsel) from 1999 to 2005. Prior to my employment with Public Counsel, I worked as a Regulatory Economist I with the Procurement Analysis Department of the Commission from 1997 to 1999. I have been employed as the Regulatory Manager of the Water and Sewer Department with the Staff of the Commission (Staff) since February 2008. In addition, I am a member of the Adjunct Faculty of Columbia College. I teach both graduate and undergraduate classes in economics.

1 Q. Have you previously filed testimony before the Commission?

2 A. Yes. The cases in which I have filed testimony before the Commission are
3 listed on Schedule 1 attached to this testimony.

4 Q. What is the purpose of your direct testimony?

5 A. The purpose of my direct testimony is to present Staff's position on the
6 one issue that is still in dispute in this proceeding. Staff recommends that the
7 Commission approve the transfer of assets of the regulated entities owned by Ozark
8 International, Inc. Within that approval, Staff recommends that the current rates for the
9 existing entities remain the same until such time as Liberty Utilities (Missouri Water)
10 LLC d/b/a Liberty Utilities files its next rate proceeding and then the concept of
11 consolidated pricing can be examined with all other factors.

12 **BACKGROUND**

13 Q. Please briefly describe Ozark International, Inc. (Ozark).

14 A. Ozark is a non-PSC regulated entity that is the parent company of six
15 regulated utilities. The six utilities are Bilyeu Ridge Water Company, LLC (Bilyeu),
16 Midland Water Company (Midland), Moore Bend Water Utility, LLC (Moore Bend),
17 Riverfork Water Company (Riverfork), Taney County Water, LLC (Taney County), and
18 Valley Woods Utility, LLC (Valley Woods). Of these six, the first five provide water
19 service only, and Valley Woods provides both water and sewer service. In total, these
20 six entities provide service to approximately 900 customers in and around Taney and
21 Christian counties, of which 882 are water customers.

22 For a further discussion of these systems, please see pages 1-4 of Staff's
23 recommendation in this proceeding filed on January 5, 2018.

Direct Testimony of
James A. Busch

1 Q. Please briefly describe Liberty Utilities (Missouri Water), LLC (Liberty).

2 A. Liberty provides water and sewer service to customers throughout the
3 State of Missouri from the Cape Girardeau area to the City of Noel. Combined, Liberty
4 provides water service to approximately 1,975 customers and sewer service to
5 approximately 412 customers.

6 For a further discussion of Liberty, please see page 4 of Staff's recommendation
7 in this proceeding filed on January 5, 2018.

8 Q. What is Staff's recommendation in this proceeding?

9 A. Based on Staff's review of the information it gathered during its
10 investigation, Staff recommends that the proposed transfer from Ozark to Liberty be
11 approved by the Commission. Staff recommends that Liberty should be authorized and
12 ordered to file an adoption notice tariff sheet after closing on the assets and to adopt the
13 existing tariffs, and be authorized to provide service under the existing tariffs on an
14 interim basis until the adoption notice tariff sheets become effective. Staff recommends
15 that the existing rates for Ozark's regulated entities remain in place until such time as
16 Liberty files a rate case requesting a change in rates for these newly acquired systems.

17 Further recommendations are included on pages 8 – 10 of Staff's recommendation
18 in this proceeding filed on January 5, 2018.

19 Q. Did the Office of the Public Counsel (Public Counsel) respond to Staff's
20 Recommendation?

21 A. Yes. On January 16, 2018, Public Counsel filed its *OPC Comments to*
22 *Staff Recommendation*. In that filing, Public Counsel stated it supports Staff's

1 recommendation that the Commission approve the application subject to the sixteen
2 conditions.¹

3 Q. Did the Missouri Department of Natural Resources (DNR) intervene in
4 this proceeding?

5 A. Yes. DNR filed its application to intervene on September 26, 2017. The
6 Commission granted its approval on October 16, 2017.

7 Q. Did DNR respond to Staff's Recommendation?

8 A. Yes. DNR supports Staff's first recommendation that the Commission
9 authorize the sale and transfer of the assets to Liberty.² DNR further stated it takes no
10 position on the remaining staff recommendations.³

11 Q. Did any other entities request intervention in this proceeding?

12 A. No.

13 Q. Did Liberty and Ozark (collectively referred to as Applicants) respond to
14 Staff's recommendation?

15 A. Yes.

16 Q. What is the Applicant's response to Staff's recommendation?

17 A. The Applicants state that they agree and support Staff's findings and
18 recommendations with one exception. The Applicants disagree with Staff's
19 recommendation not to consolidate rates in this proceeding. The Applicants requested
20 consolidation in its original application for the water systems. Since Valley Woods is the
21 only sewer provider, its rates would remain unchanged.⁴

¹ OPC Comments To Staff Recommendation, page 1, Para 4.

² Missouri Department of Natural Resources' Comments to Staff Recommendation, page 1, Para 4.

³ Missouri Department of Natural Resources' Comments to Staff Recommendation, page 1, Para 5.

⁴ Joint Applicants' Response to Staff Recommendation.

1 Q. Is that the only issue in this case?

2 A. It is Staff's understanding that the only outstanding issue to resolve this
3 case is the Applicants' request to consolidate rates for the water systems.

4 **CONSOLIDATED RATES**

5 Q. What is Staff's position regarding consolidated rates in this case?

6 A. Staff opposes consolidation at this time for the former Ozark International
7 utilities. It is Staff's position that the appropriate time to consider consolidation is during
8 a rate case so that all cost of service and rate components can be examined and then a
9 proper determination can be made if consolidation is appropriate.

10 Q. Please describe the Applicants' proposal in more detail.

11 A. According to their proposal, the Applicants proposed to use a single
12 consolidated tariff containing rules and regulations and a single consolidated water rate
13 applicable to the existing six water service areas. According to Appendix J attached to
14 the original Application, this would mean that the customer charge for all water
15 customers would be \$15.93 and the commodity rate would be \$4.45 per 1,000 for all
16 water customers impacted by this transfer.

17 Q. How did the Applicants' calculate those charges?

18 A. It appears that the Applicants reviewed the last rate case filed by Ozark for
19 the six entities, WR-2015-0192, aggregated the revenue requirement amounts for each
20 individual system, and created a rate as if consolidation had occurred in that rate case.

21 Q. What are the currently Commission approved water rates for each system
22 compared to the Applicants' proposal?

Direct Testimony of
James A. Busch

1 A. Below is a Table showing the current effective water rates as well as the
2 proposed rates. These rates were determined in Case No. WR-2015-0192 after a
3 thorough review of all the individual utilities' books and records.

4 Table 1

	Customer Charge		Commodity Charge
Bilyeu	\$17.22		\$3.56
Midland	\$9.49		\$4.71
Moore Bend	\$28.13		\$10.31
Riverfork	\$21.56		\$2.08
Taney County	\$12.55		\$5.63
Valley Woods	\$20.97		\$2.12
Proposed	\$15.93		\$4.45

5
6 As can be seen, the proposal alters the various charges to various customers.

7 Q. Have there been changes to the systems since the last rate case when those
8 just and reasonable rates were set for each individual system?

9 A. There are always changes post-rate case for all utility systems. However,
10 since this is not a rate case, Staff did not perform a full in-depth analysis of the cost of
11 service for each system either separately or in the aggregate in this case. A rate case is
12 the appropriate vehicle to do such an analysis.

13 Q. Without such an analysis, should rates be changed at this time?

14 A. Absolutely not. Generally, rates should only be changed after a thorough
15 investigation into the utility, the cost of providing service, and the resulting rates.

16 Q. What was the Applicants' reasoning for proposing consolidating rates in
17 this proceeding?

Direct Testimony of
James A. Busch

1 A. According to paragraph 9 in its Application, the Applicants state that if the
2 Commission does not allow consolidation, Liberty would be required to serve
3 approximately 3,400 customers through twelve different sets of tariffed rules and
4 regulations and 18 different rate schedules.

5 Q. Is that a compelling argument?

6 A. Not at all. Liberty, through its parent company and other subsidiaries, is a
7 multi-national company that provides water, sewer, electric, and gas service throughout
8 Missouri, the United States and Canada. This is not a small “mom and pop” utility, but a
9 highly sophisticated utility that provides service to millions of people with dozens of
10 rules, rates, and regulations. Despite deep resources and sophistication, Liberty is
11 essentially asking the Commission to consolidate the Ozark service areas because
12 managing those tariffs is too complicated.

13 Q. If the Commission does grant consolidation for the six Ozark systems,
14 would that alleviate Liberty’s issue with multiple rates and tariffs?

15 A. No. Even if this consolidation would be approved, there would still be six
16 tariffs and 12 rates. This includes water and sewer rates.

17 Q. Is Liberty currently in for a rate increase?

18 A. Yes. That case is WR-2018-0170.

19 Q. Is Liberty requesting consolidation in that proceeding?

20 A. Yes.

21 Q. What is Staff’s position in that case?

22 A. Staff is currently in its investigation in that case and has not made a
23 determination at this point.

1 Q. Would consolidation in the rate case and in this proceeding create a single
2 water rate for all of Liberty’s customers in Missouri?

3 A. No. There would still be at least three tariffed water rates since the Ozark
4 systems would not be included in the rate case consolidation. Also, Liberty’s Empire
5 water customers (recently acquired in Liberty’s acquisition of Empire District Electric
6 Company EM-2016-0213) would also have their own rates since those systems were not
7 included in the rate case. This does not include the number of sewer tariffed rates that
8 Liberty will still have.

9 Q. Is Staff opposed to the concept of consolidating rates?

10 A. No. Staff proposed consolidated rates in Missouri-American Water
11 Company’s (MAWC) previous rate case WR-2015-0301. In that proceeding Staff
12 recommended the creation of three districts with consolidated rates in each district. Staff
13 made that recommendation based on a variety of factors that were reviewed during
14 MAWC’s rate case.

15 Q. What are some reasons that Staff recommended consolidation?

16 A. Staff moved to further consolidation because MAWC’s previous structure
17 consisted of seven large, independent districts with an eighth district that consisted of
18 relatively smaller systems that were more recently acquired by MAWC. The systems
19 within that eighth district also had different rates, depending upon their prior existing
20 commodity rates. Staff determined that the “Eight District” concept was no longer good
21 public policy and shifted its position to the “Three District” hybrid that is currently in
22 effect for MAWC.

1 Staff's reasoning for designing the districts in the manner that it recommended in
2 WR-2015-0301 was based on the following factors: similar operational characteristics of
3 the systems in each district; MAWC's regional breakdown of operating districts (i.e. East
4 Central corresponds to District 1, Northwest corresponds to District 2, etc.); and each
5 district has a larger, anchor system. District 1 has St. Louis Metro, District 2 has
6 St. Joseph, and District 3 has Joplin.

7 Q. Does the proposed consolidation by the Applicant's meet the basic
8 reasoning Staff used in MAWC's case?

9 A. No. Staff would agree that the operational characteristics of the six Ozark
10 systems are similar; however, Staff does not believe these newly acquired systems will be
11 a stand-alone operating district within Liberty's operational structure. Also, there is not a
12 larger anchor system. The number of customers in each system is as follows:

13 Table 2

	Customers
Bilyeu	61
Midland	93
Moore Bend	87
Riverfork	143
Taney County	458
Valley Woods	40
Total	882

14
15 Q. Why is the concept of an "anchor system" important?

16 A. An anchor system is important due to the main reason for consolidated
17 rates. The main benefit of consolidation is that consolidation spreads the cost of service
18 out to a larger group of customers. With an anchor system, like the districts in MAWC

Direct Testimony of
James A. Busch

1 have, there is at least one large system in each district that allows for the spreading of
2 costs with relatively minimal impact to the entire district.

3 Q. Is there an “anchor system” in Liberty’s proposed consolidation?

4 A. No. As can be seen in Table 2, there are only 882 total customers. Even
5 as one district, this would be a small water system. Within these six, Taney County is the
6 largest system with only 458 customers. This is nowhere near a large enough system to
7 help ease the burden of spreading costs.

8 Q. Does current state statute address the concept of an “anchor system?”

9 A. Yes. RSMo 393.320 6. states as follows:

10 Upon the date of acquisition of a small water utility by a large
11 public utility, whether or not procedures for establishing
12 ratemaking rate base provided by this section have been utilized,
13 the small water utility shall, for ratemaking purposes, become a
14 part of an existing service area, as defined by the public service
15 commission, of the acquiring large water public utility that is either
16 contiguous to the small water utility, the closest geographically to
17 the small water utility, or best suited due to operational or other
18 factors. This consolidation shall be approved by the public service
19 commission in its order approving the acquisition.

20 Q. How does this section address the concept of an “anchor system?”

21 A. Even though I am not an attorney, to me, this section means that a smaller
22 utility that is purchased by a larger utility should be consolidated with a larger district to
23 address the issue of future rate increases to a smaller system and to help spread those
24 costs to a larger customer base.

25 Q. Are the Applicants proposing to make the acquired systems part of an
26 existing service area?

27 A. No.

Direct Testimony of
James A. Busch

1 Q. How has this statute been applied in previous application cases?

2 A. Generally, when a large utility purchases the assets of a smaller utility, at
3 the time of the acquisition, the newly acquired system will be assigned to a larger district.
4 For example, when MAWC has purchased systems in the past, the system would be
5 assigned to the nearest larger district for ratemaking purposes. So, a small sewer system
6 near Jefferson City would be added to the Jefferson City district, or if a small water
7 system was acquired near Branson, it would generally be assigned to the newly
8 developed District 3.

9 Q. Would rates change due to the acquisition?

10 A. Generally, the rates would not change due to the acquisition. There may
11 be some circumstances when a rate may have been decreased, but usually, the existing
12 rates of the system would remain the same, especially if the acquired system was
13 regulated and had recently been in for a rate case.

14 Q. Isn't the idea of spreading costs to 882 customers better than spreading
15 costs to each of the individual systems?

16 A. Maybe, but at this time, costs are not necessarily being spread to a larger
17 customer base. Since this is not a rate case, an examination of the cost of service has not
18 been conducted. The Applicants' proposal only takes old data and creates a new rate.

19 Further, at this time, there has not been any major capital investment that would
20 need to be spread out more evenly. The only change is that Liberty would be operating
21 the systems instead of Ozark. Thus, nothing has changed the cost of service that would
22 indicate a change in rates is necessary.

Direct Testimony of
James A. Busch

1 Q. What about future improvements? Wouldn't consolidation help spread the
2 costs of future improvements to a larger customer base and thus lessen the impact?

3 A. Consolidation would spread future capital improvement costs to all
4 customers. Unfortunately, consolidating the rates of these small systems would not really
5 help in that regard if consolidation occurred in this rate case. As pointed out in Staff's
6 recommendation, many of the systems will require capital improvements once Liberty
7 takes over. These upgrades include, but may not be limited to, such items as insufficient
8 storage in Midland and Moore Bend, the potential need for more supply in Riverfork,
9 plus major distribution repair and replacement in Taney County. These upgrades may be
10 significant and will cause all rates to increase in the future. Further, any future
11 improvements will not impact rates until Liberty files its first rate case after those
12 improvements have been put into place. At that time, consolidation could be considered.

13 Q. Are there other benefits of not consolidating rates?

14 A. Yes. As Staff as pointed out in other cases, consolidation of rates may
15 have the consequence of lessening fiscal discipline on the utility. A capital improvement
16 on a small system will have a larger impact on that system compared to spreading the
17 cost to more customers, who are not benefitting from the improvement. Thus, the utility
18 may investment more than necessary because the ultimate impact on the system is lower.

19 Q. How does consolidation impact the customers who are not receiving major
20 capital investment?

21 A. In the situation involving the Ozark systems, all customers will see
22 significant increases due to any capital improvements under consolidation. For example,
23 assume that Liberty makes the following capital improvement expenditures. Taney

Direct Testimony of
James A. Busch

1 County gets \$1,250,000, Riverfork gets \$600,000, and Midland gets \$500,000, for a total
2 capital outlay of \$2,350,000. Assuming a rate of return of 7.5% and a 20 year
3 depreciable life, the yearly impacts respectively would be: \$156,250; \$75,000; \$62,500;
4 and, \$293,750. The monthly impact to customers under the existing rate structure would
5 be \$28.42 to Taney County, \$43.71 to Riverfork, and \$56.00 to Midland. If consolidated,
6 the impact would be \$27.75. So, the Riverfork and Midland customers would see
7 significant savings, and Taney County customers would be slightly better off.
8 Unfortunately, the remaining customers in Bilyeu, Moore Bend, and Valley Woods
9 would see their rates increase \$27.75 due to improvements in other districts.

10 Q. That makes sense, but isn't that the benefit of consolidation that any one
11 district will not have a large increase all at once, but the increases will be spread out as
12 each new system receives capital improvements?

13 A. Generally, that is the benefit. However, paying an additional \$27.75
14 solely for capital expenditures in other districts to avoid a potential larger increase
15 sometime in the future does not look very beneficial. Especially since this does not
16 include the impact of expenses and other items that would also be included in the rate
17 calculated in my example. The example was calculated to just try and isolate the impact
18 of capital improvements in certain service areas.

19 Q. Are there other problems with consolidating rates at this time?

20 A. Yes. As Table 1 above shows, certain systems will get an increase and
21 some will get a decrease without any significant change in cost of service and without a
22 thorough review. Further, as upgrades are made to the system, future increases will be

1 required. Thus, customers may see a decrease in rates, then a potential significant
2 increase in the future.

3 Further, reviewing currently effective rates shows that some systems have a
4 relatively larger customer charge with a relatively smaller commodity rate and vice versa.
5 The proposed consolidated rate will change the structure of the rate. This will potentially
6 cause dramatic shifts to consumers and could impact overall usage patterns in ways that
7 are not anticipated.

8 **SUMMARY**

9 Q. Please summarize your direct testimony.

10 A. Staff recommends the proposed transfer of assets from Ozark to Liberty.
11 Public Counsel is in support of all of Staff's recommendations. DNR is in support of the
12 transfer and does not take a position on the rest of Staff's recommendations. The
13 Applicants also support Staff's recommendations, except for the recommendation to keep
14 rates as is.

15 It is Staff's recommendation that rates should not be consolidated in this
16 proceeding. Before any consolidation, there should be a careful review of all factors and
17 cost of service of the entity to ensure that all items are considered before any rates are
18 consolidated. Consolidation of rates in this proceeding will cause some customers to see
19 rates increase and other customers to see rates decrease without proper analysis and
20 support for the consolidation. Consolidation may be in the public interest at some point
21 in the future, but it is premature to consider at this time.

22 Q. Does this conclude your rebuttal testimony?

23 A. Yes.

**Cases of Filed Testimony
James A. Busch**

<u>Company</u>	<u>Case No.</u>
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GO-98-484
Laclede Gas Company	GR-98-374
St. Joseph Light & Power	GR-99-246
Laclede Gas Company	GT-99-303
Laclede Gas Company	GR-99-315
Fiber Four Corporation	TA-2000-23; et al
Missouri-American Water Company	WR-2000-281/SR-2000-282
Union Electric Company d/b/a AmerenUE	GR-2000-512
St. Louis County Water	WR-2000-844
Empire District Electric Company	ER-2001-299
Missouri Gas Energy	GR-2001-292
Laclede Gas Company	GT-2001-329
Laclede Gas Company	GO-2000-394
Laclede Gas Company	GR-2001-629
UtiliCorp United, Inc.	ER-2001-672
Union Electric Company d/b/a AmerenUE	EC-2001-1
Laclede Gas Company	GR-2002-356
Empire District Electric Company	ER-2002-424
Southern Union Company	GM-2003-0238
Aquila, Inc.	EF-2003-0465
Missouri-American Water Company	WR-2003-0500
Union Electric Company d/b/a AmerenUE	GR-2003-0517
Aquila, Inc.	ER-2004-0034
Aquila, Inc.	GR-2004-0072
Missouri Gas Energy	GR-2004-0209
Empire District Electric Company	ER-2004-0570
Aquila, Inc.	EO-2002-0384
Aquila, Inc.	ER-2005-0436
Empire District Electric Company	ER-2006-0315
Kansas City Power & Light	ER-2006-0314
Union Electric Company d/b/a AmerenUE	ER-2007-0002
Aquila, Inc.	EO-2007-0395
Missouri-American Water Company (Live)	WC-2009-0277
Missouri-American Water Company	WR-2010-0131
Review of Economic, Legal and Policy Considerations Of District Specific Pricing and Single Tariff Pricing (Live)	SW-2011-0103
Timber Creek Sewer Company	SR-2011-0320
Missouri-American Water Company	WR-2011-0337
Emerald Pointe Utility Company	SR-2013-0016

City of Pevely and CPWSD C-1 of Jefferson County	WC-2014-0018
Hickory Hills Water and Sewer Company, Inc	SR-2014-0166/WR-2014-0167
Peaceful Valley Service Company (Live)	SR-2014-0153/WR-2014-0154
Central Rivers Wastewater Utility	SR-2014-0247
Missouri-American Water Company	WR-2015-0301
Ridge Creek Water, LLC	WO-2017-0236
Missouri-American Water Company	WO-2018-0059
Missouri-American Water Company	WR-2017-0285