

Exhibit No.:

Issue(s):

Accelerated Depreciation;

Rate Design;

Cost of Service

Witness/Type of Exhibit:

Hall/Rebuttal

Sponsoring Party:

Public Counsel

Case No.:

WR-97-237 et al

82

REBUTTAL TESTIMONY

OF

BARRY F. HALL

Submitted on Behalf of
the Office of the Public Counsel

FILED³

JAN 23 2004

**Missouri Public
Service Commission**

MISSOURI-AMERICAN WATER COMPANY

Case No. WR-97-237 et al

July 18, 1997

Exhibit No. 121
Case No(s) WR-2003-0500
Date 12-2-03 **Rptr** TC

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

In the matter of Missouri-American Water Company's tariff
designed to increase rates for water service provided to cus-
tomers in the Missouri service area of the company.)

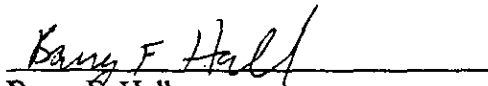
Case No. WR-97-237 et al)

AFFIDAVIT OF BARRY F. HALL

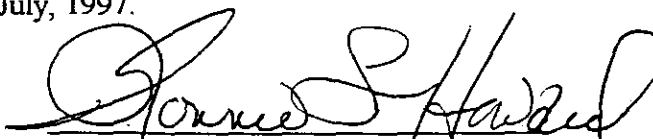
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Barry F. Hall, of lawful age and being first duly sworn, deposes and states:

1. My name is Barry F. Hall. I am a Public Utility Engineer for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 23.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


Barry F. Hall

Subscribed and sworn to me this 18th day of July, 1997.


Bonnie S. Howard
Notary Public

My commission expires May 3, 2001

REBUTTAL TESTIMONY

OF

BARRY F. HALL

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-97-237 ET. AL.

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Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. Barry F. Hall, Public Utility Engineer
Missouri Office of the Public Counsel
P. O. Box 7800
Jefferson City, Missouri 65102

Q. ARE YOU THE SAME BARRY F. HALL THAT SUBMITTED DIRECT TESTIMONY IN THIS CASE?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will discuss an issue related to the accelerated depreciation of the St. Joseph treatment plant as proposed by Public Service Commission Staff ("Staff") witness Smith. I will respond to the proposed rate designs of the Staff and Company as presented in the direct testimony of the Missouri-American Water Company ("MAWC" or "Company") witnesses Guastella, L'Ecuyer and Staff witness Henderson, especially the proposals for the Company to adopt a uniform rate structure (i.e. identical tariffs for all the districts ignoring all district-specific cost differences).

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**Staff's Proposed Accelerated Depreciation of the Water
Treatment Plant at St. Joseph**

**Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE PROPOSAL ADVOCATED BY STAFF WITNESS
SMITH IN HIS DIRECT TESTIMONY REGARDING THE ACCELERATED DEPRECIATION OF THE ST.
JOSEPH WATER TREATMENT FACILITIES.**

A. Having recently participated in the two combined cases WF-97-241 & WA-97-46, I am aware that the Company has tentatively planned to build a new groundwater treatment plant to replace its existing water treatment facilities at St. Joseph. Mr. Smith has advocated in his direct testimony that the Company begin recovering additional amounts of depreciation expense related to the depreciation of the existing St. Joseph water treatment plant. Recognizing the inherent uncertainty of when (or whether) such plans may actually result in the retirement of the facilities currently in service at St. Joseph, Mr. Smith advocates amortizing the remaining undepreciated plant associated with the current water treatment facility over a period of 10 years.

**Q. WHAT ISSUE ARE YOU GOING TO DISCUSS CONCERNING THE STAFF'S PROPOSED ACCELERATION
OF THE DEPRECIATION?**

A. I am going to discuss the uncertainty inherent in the Company's plans. Public Counsel witness Robertson discusses the policy or advisability of adjusting the depreciation rates which currently apply to the treatment plant now in service at St. Joseph in his rebuttal testimony.

1 Q. STAFF WITNESS SMITH STATES THAT "THE CONSTRUCTION OF THE REPLACEMENT ST. JOSEPH
2 PLANT MAY BE DELAYED FOR VARIOUS REASONS AND THE RETIREMENT OF THE EXISTING PLANT
3 WOULD THEREFORE BE DELAYED AS WELL (DIRECT TESTIMONY, P.6, LINE 7)." DO YOU AGREE
4 WITH THAT STATEMENT?

5 A. Yes, there are any number of unforeseen reasons why the Company might delay or
6 radically alter its proposed construction plans. The Company has tentatively chosen one
7 alternative from a set of alternatives based on its assumptions about future events.
8 Before construction contracts have even been let, or construction is begun, new facts or
9 regulations may come to light which could provide the Company with a situation wherein
0 it would be prudent to re-examine the assumptions built into its strategic selection of its
1 proposed alternative. While technological changes received the Commissioners' focus
2 in the certificate and financing case, there are a host of other factors which might
3 plausibly shift the balance toward an alternative approach at a future date; it is possible
4 that a revised approach in the near future may not include a complete retirement of the
5 existing facilities.

Q. CAN YOU GIVE ONE PLAUSIBLE EXAMPLE OF AN OCCURRENCE WHICH MIGHT PROVIDE AN
OPPORTUNITY FOR THE COMPANY TO REVISIT ITS ASSUMPTIONS AND CHOICE OF THE
ALTERNATIVE CURRENTLY PROPOSED?

A. While I was sitting for cross-examination in the previous certificate and financing case
the Company's attorney posed the following hypothetical situation: At some future date
the Company's currently proposed project is complete and the Company has filed a rate
case in which it is seeking recovery of the costs associated with the project.

Simultaneous with its filing to recover those costs of the completed project in a rate
case, the city of Kansas City begins offering free water. The question was posed to me:
Would Public Counsel seek a disallowance in that instance claiming imprudent

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1 investment? I answered that Public Counsel would not. (Clearly it would be
2 inappropriate to penalize the Company if it MAWC had no way to anticipate several
3 months beforehand that the city of Kansas City were about to make such an offer.)

4 Free water may not be very plausible at any point in the future, but it is plausible
5 that the city of Kansas City might make an offer to MAWC to supply water to St. Joseph
6 at a price substantially reduced from the offer previously analyzed before any
7 construction is begun on MAWC's proposed project, such that it would be prudent for
8 MAWC to re-examine the its current choice. For the sake of argument, suppose that in
9 the next few months the city of Kansas City did offer to supply water to St. Joseph at a
10 price that undercut the revenue requirement of the lowest cost alternative by 15 - 25%.
11 Further suppose that MAWC did elect to contract with the City of Kansas City for some
12 portion of the long term water supply needs of St. Joseph. In that instance it might make
13 sense for some of the plant at the existing facility in St. Joseph to remain in service for
14 some extended time going-forward.

15 Q. ARE YOU SAYING THAT MAWC'S PLANS TO BUILD A NEW GROUNDWATER TREATMENT FACILITY
16 AT ST. JOSEPH ARE TENTATIVE?

17 A. Such plans are always tentative by nature.

18 Q. DO YOU KNOW OF FACILITIES WHICH THE COMPANY HAS PREVIOUSLY PLANNED AND THEN
19 DECIDED LATER NOT TO BUILD?

20 A. Yes. In case WR-95-205, MAWC agreed to write off the design costs associated with a
21 proposed Joplin Distribution Center which it decided not to build.

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1 Q. IF YOU WERE ASKED TO ASSOCIATE A PROBABILITY WITH THE FUTURE OUTCOME THAT MAWC
2 ACTUALLY CONSTRUCTS A GROUNDWATER TREATMENT PLANT SUBSTANTIALLY SIMILAR TO THE
3 ONE PROPOSED, AT THE PROPOSED PLANT SITE, BY THE DATE PLANNED OR SOME OTHER DATE,
4 COULD YOU DO THAT?

5 A. I have no way of doing so. There are too many factors that could affect the future
6 decision making processes of the Company.

7 The bottom line is: It is not necessary for the Public Service Commission to
8 ascertain such a probability in order to set just and reasonable rates; nor is it advisable
9 to continuously readjust the expected retirement date of facilities as MAWC considers
10 new plans or its plans are changed from time to time. *If and when* any plant is retired
11 "early" the Commission will be able to consider *specifically* what plant has been retired
12 and how any undepreciated amount should be recovered.

3 Q. IF THE COMMISSION WERE TO APPROVE WITNESS SMITH'S PROPOSAL FOR ACCELERATING THE
4 DEPRECIATION OF THE EXISTING ST. JOSEPH WATER TREATMENT PLANT, DO YOU HAVE A
5 CONCERN RELATED TO THE RATE DESIGN STAFF IS PROPOSING IN THIS CASE?

5 A. Yes, I do. If both proposals are adopted, customers from districts other than St. Joseph,
7 which do not stand to benefit from a project, which may or may not be built, will soon be
8 paying for the early retirement of the existing St. Joseph facilities! In my opinion, this
9 would not constitute just a slight deviation from sound ratemaking principles, but rather a
10 clear affront to such principles. (See the rebuttal testimony Mr. Robertson for a thorough
11 discussion of OPC's policy on this issue.)

MAWC's Proposal of Uniform Rates for All of Its Districts

Q. DOES STAFF WITNESS HENDERSON AND MAWC WITNESS GUASTELLA HAVE A SIMILAR INTERPRETATION OF THE ORDER IN THE PREVIOUS CASE, WR-95-205, REGARDING THE CONTEMPLATED MOVE TOWARD UNIFORM RATES?

A. Yes, both witnesses interpreted that order as an approval of a move towards single tariff pricing in this case, the first rate case subsequent to WR-95-205. Both witnesses also reference the agreement of other parties in the past case, including the Public Counsel, with the idea of single tariff pricing.

Q. DID THE PROPOSITION OF UNIFORM RATES ORIGINATE IN THE WRY-95-205 RATE CASE?

A. No, this proposition was advanced much earlier. Prior to MAWC's purchase of the properties of Missouri Cities Water Company ("MCWC"), MCWC had at least two case in which the proposition was advanced.

The first case that I'm aware of is WR-89-178. MCWC proposed the idea in WR-89-178 and then stipulated to a rate design that included rates which were not uniform.

In a subsequent case, WR-90-236, MCWC filed to adopt uniform rates which were calculated by averaging the revenue requirement over each of the districts. This Company also filed offsets called "equalization rates" for each district which, when added to the uniform rates in each district, would maintain revenue neutrality -- that is specific information regarding what the impacts would be in moving from a district specific type rate to a uniform rate for all the districts.

The ruling from the Commission at that time did not present a clear direction. While saying that the "proposal to establish a system-wide rate for water service is reasonable" the Commission adopted the rates with the equalization rate, or offset, intact

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1 -- so as to leave rates unchanged. The Commission left open for future cases whether
2 increases in revenues could be spread to all the districts evenly *without* removing the
3 equalization rates or offsets approved in that case. The goals cited by the Commission
4 in that case for MCWC in leaving the offset intact (i.e. leaving rates unchanged for the
5 time being) was to reduce the potential for rate shock, presumably resulting from the
6 adoption of uniform rates (see the order, p. 5), and limiting cross-subsidization.

7 The Commission said also that the rate differential that existed prior to the case
8 would be maintained with the matter subject to review in any subsequent case.

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Q. SO, THE COMMISSION ELECTED TO MAKE NO CHANGES TO THE RATES IN THAT CASE. IS THAT
CORRECT?

A. Yes, apparently the case resulted only in semantic changes with the addition of the
concept of an "equalization" rate which reversed the effect of averaging the rates over
the districts. Henceforth, the rate could be discussed as two portions a uniform rate plus
and offset. It is clear that the Commission at that time was interested in considering the
quantitative effects of such a proposition before it decided to leave rates unchanged.

Q. WHAT POSITIONS WERE TAKEN BY THE PARTIES IN THE MISSOURI CITIES WATER COMPANY
CASES, WR-89-178 AND WR-90-236?

A. The Staff consistently opposed uniform rates in both cases. An excerpt characterizing
the Staff position at that time from the report and order of WR-90-236 is useful for
historical context:

It is Staff's position that Company [MCWC] did not ask that revenue to
the various district be changed and Staff generally recommends that
rates be set on a cost-of-service basis by district. Staff recommends

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1 that rates for the Company continue to be designed on the cost of
2 service for each district and thus opposes the setting of rates on a
3 system-wide basis.

4 Staff witness Sankpill stated in his testimony that there was no "precedent" for system-
5 wide rates (Sankpill Direct WR-90-236, p.5).

6 In both cases, the Public Counsel took a hybrid approach. In WR-90-236 Public
7 Counsel advocated keeping the rates unchanged like the Staff, but was willing to
8 entertain the future increases on a system-wide basis leaving the equalization rates or
9 offsets unchanged.

10 The city of Warrensburg consistently opposed the concept since it appeared to
11 either involve or anticipate explicit cross-subsidization. Brunswick supported the concept
12 as proposed in the earlier case, WR-89-179, which anticipated significant expenditures
13 to be accomplished in the near future in its district.

14 **Q. IN MAWC'S PREVIOUS RATE CASE, WR-95-205, WERE THERE CONCERNS EXPRESSED ABOUT**
15 **THE APPLICATION OF SINGLE TARIFF PRICING OR UNIFORM RATES UNDER CIRCUMSTANCES THAT**
16 **MIGHT EXIST IN THE FUTURE?**

17 **A. Yes, these concerns were cited by the Commission in its order:**

18 The City of Warrensburg has expressed reservations regarding the
19 Company's future construction plans and the impact which those plans
20 would have upon a state-wide uniform tariff structure. However, it was
21 made clear upon the conclusion of the hearing that future capital
22 expenditures were not an issue in this case. This question was not
23 presented for resolution in this case. The Commission is not committed
24 to a specific position as to such expenditures and as to the effect of those
25 expenditures within a single tariff structure. The Commission will not
26 reach a position on this issue until it is properly presented in a future
27 case.

(P. 31, Report and Order from WR-95-205)

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1 Q. THE ABOVE ORDER STATES THAT IN THE COURSE OF THE HEARING IT "WAS MADE CLEAR UPON
2 CONCLUSION OF THE HEARING THAT FUTURE CAPITAL EXPENDITURES WERE NOT AN ISSUE IN THE
3 CASE." DO YOU KNOW WHAT THAT STATEMENT REFERENCES?

4 A. Yes, I do. I reviewed the transcript from MAWC's previous rate case. It references an
5 exchange between former Commissioner McClure and former OPC witness Adams.

6 From that transcript:

7 **Adams:**

8 ... But you're really talking about two different issues here. You know,
9 one is whether we want -- and the desirability of uniform rates. The
10 second is the \$80 million expenditure, whether you're even going to do it
11 or not.

12 **McClure:**

13 Okay. You've hit on a key issue here. In your opinion these are two
14 separate and distinct matters?

15 **Adams:**

16 Oh, very definitely.

17 **McClure:**

18 One is for the rates to be charged as a result of this case. The other
19 would be what may or may not happen in the future. Is that --

20 **Adams:**

21 That's right.

(Tr. WR-95-205, p. 378)

22 Q. HAS THE COMPANY MADE SUBSTANTIAL CAPITAL INVESTMENTS CONCENTRATED LARGELY IN
23 CERTAIN DISTRICTS WHICH IT IS ATTEMPTING TO RECOVER IN RATES FROM RATEPAYERS IN ALL
24 ITS DISTRICTS FOR THE FIRST TIME IN THIS CASE?

25 A. Yes. A good part of the increase in revenue requirement requested by the Company in
26 this case involves capital projects specific to the largest districts: St. Charles, St. Joseph
27 and Joplin.

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1 Q. THE DISCUSSION IN THE PREVIOUS CASE OF A FUTURE CAPITAL EXPENDITURE HAD SPECIFIC
2 REFERENCE TO MAWC'S PLANS TO REPLACE ITS WATER TREATMENT PLANT AT ST. JOSEPH. IS
3 THAT CORRECT?

4 A. Yes, that is correct. The difference here is that no reason, compelling or otherwise, has
5 been advanced by any of the parties to justify the departure from cost-based ratemaking.
6 The Commission clearly indicated that no foregone conclusions had been reached
7 concerning the treatment of future capital expenditures.

8 Q. IN THE PREVIOUS CASE DID SOME WITNESSES DISCUSS AMELIORATING THE IMPACT OF THE
9 DEPARTURE FROM COST-BASED RATES ENTAILED BY A UNIFORM RATE STRUCTURE IN THE EVENT
10 THAT A LARGE CAPITAL ADDITION WERE MADE AT ST. JOSEPH?

11 A. Yes, Public Counsel witness Adams and Staff witness Henderson discussed the
12 possibility that the parties that they represented might favor a surcharge of some kind to
13 ameliorate such an effect under a system of uniform rates.

14 **Adams:**

15 "The fact that you have uniform rates doesn't mean you can't
16 have sur-levies to help equalize it."

17 "If a very large investment -- capital investment took place in
18 St. Joe and you could modify the uniform rate by applying a
19 surcharge to St. Joe, you'd still have a uniform rate."

20 (Tr. WR-95-205, p. 374, 375)

21 **Henderson:**

22 "... one method would be to maybe surcharge, say St. Joe,
23 since they were the major contributor or cause of the

investment."

(Tr. WR-95-205, p. 364)

**Q. DO YOU FIND THIS LINE OF REASONING SOMEWHAT IRONIC IN LIGHT OF THE DIRECT TESTIMONY
SPONSORED BY THE COMPANY AND THE STAFF IN THIS CASE?**

A. Yes, one of the supposed ends to be accomplished in the application of uniform rates is the mitigation of dramatic rate impacts or the alleviation of "rate shock." So it is interesting to note that the parties in the previous case discussed methods to alleviate the undesirable results of the supposed "cure."

It's also instructive to note from the excerpt above that Staff witness Henderson would have regarded St. Joseph customers as the "major contributor or cause" of the proposed investment in St. Joseph, if the proposed plant were built and put into service.

**Q. WHY HAVE YOU REVIEWED SOME OF THE PREVIOUS CASE HISTORY CONCERNING PAST
PROPOSALS TO AVERAGE THE RATES OF THE DIFFERENT WATER DISTRICTS WHICH ARE NOW A
PART OF MAWC?**

A. First, contrary to the impressions given by Staff and Company in their direct filings, historically speaking, agreement has not been unanimous in favor of the large departure from cost-of-service principles as is being advocated in this case.

Again, much of the discussion historically has been on how to "fix" uniform rates so that some district-specific costs could be reflected in the rate design. Apparently, the Staff has "advanced" in its thinking over time so that no "fixes" will be required.

More importantly, there has not been a very wide-ranging or deep discussion in past cases or in the direct testimony of the Company and Staff witnesses concerning other methods that might arrive at the same desired ends without the abandonment of cost-of-service principles, or even an inquiry into the question: Do the desired "ends

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1 justify the means?" This serves to underscore the importance of more carefully
2 examining the desired ends to be accomplished, the potential drawbacks of ignoring *all*
3 district-specific costs in the ratemaking process, and taking a look at alternative methods
4 for accomplishing the desired ends. It is a truism; when there are multiple goals sought
5 (such as fairness, affordability, avoidance of "rate shock, rate stability, ease of
6 administration, etc.) a rate design cannot optimize all goals simultaneously. Tradeoffs
7 should be made only *after* deciding how important each goal is in the overall regulatory
8 framework. Here, historical precedent, and the proper application of well-framed
9 analogy with other forms of utility service, can be an aid in ranking the relative
10 importance of the desired ends.

11 Finally, with the exception of the city of Warrensburg, it is clear that the parties'
12 positions have changed over time, sometimes dramatically. As I've intimated in my
13 direct testimony this tendency of positions to shift from case to case makes the assertion
14 that uniform rates "will be equitable over the long run" very difficult to accept since
15 uniform rates are not apt to survive for the length of time necessary (i.e. the lives of the
16 assets) for this to be possible (ignoring for the time being all the other very real problems
17 posed by that assertion). Of course, even if the positions of parties didn't shift, the
18 composition of the Commission and the philosophies represented can be expected to
19 change over the years.

20 **Q. CLEARLY, STAFF AND COMPANY ADVOCATE PRESSING ON WITH UNIFORM RATES. DO YOU**
21 **BELIEVE THAT THE COMMISSION OUGHT TO TAKE A FRESH AND MORE DETAILED LOOK AT THE**
22 **GOALS AND ASSUMPTIONS ESPOUSED BY THE PARTIES BEFORE IGNORING, CARTE BLANCHE, ALL**
23 **DISTRICT-SPECIFIC COSTS IN SETTING RATES?**

24 **A.** Yes, I do. This Commission ought to dig a little deeper than the previous Commission
25 and require that the parties provide the necessary information to understand

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1 *quantitatively* what kind of departure from cost-based rates the Company and Staff are
2 advocating. Considering the record in the previous case and the direct filings in this
3 case, there has been very little evidence of a quantitative or detailed nature concerning
4 the financial or economic implications of MAWC's proposed move to uniform rates (or
5 more accurately, MAWC's proposal to move away from cost-based rates for the
6 districts).

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7 Q. HAS NO PARTY TO THIS CASE PROVIDED EVIDENCE IN THE INITIAL FILINGS UPON WHICH THE
8 COMMISSION MIGHT MAKE AN INFORMED DECISION?

9 A. No, the only two "cost-of-service" studies prepared by the Staff and Company are
10 actually calculations based on the premise of uniform rates. Hence, they simply ignore
11 the differences in the costs to serve customers in the different water districts. These
12 studies are summarily uninformative on the tradeoffs which are entailed in the
13 proposition of uniform rates.

4 Q. WHY DID PUBLIC COUNSEL NOT REQUEST THE INFORMATION NECESSARY FROM THE COMPANY
5 NECESSARY TO PERFORM A LEGITIMATE DISTRICT-SPECIFIC COST-OF-SERVICE STUDY?

6 A. Public Counsel has requested such information, though admittedly, in not a very timely
7 manner. The Company, given its desire to move away from cost-based rates, did not
8 have the information in a readily accessible form or a form amenable to such an analysis
9 without a considerable amount of work. (I expect that at least three rounds of discovery
10 would be required to get the information necessary to do a complete cost-of-service
11 study.)

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1 Q. IN YOUR OPINION, SHOULD THE COMMISSION FEEL CONSTRAINED TO ADOPT THE UNIFORM RATES
2 ADVOCATED BY THE STAFF OR MAWC IN THIS PROCEEDING?

3 A. The Commission *is not* constrained and should not simply choose this alternative
4 because it is the only one developed in detail in this case, especially not if the
5 Commission deems it not to be the proper course of action resulting in "just and
6 reasonable rates."

7 Q. SPECIFICALLY WHAT INFORMATION IS LACKING IN THE FILINGS OF THE STAFF AND COMPANY THAT
8 THE COMMISSION SHOULD HAVE BEFORE MAKING A DECISION AS TO WHETHER, OR TO WHAT
9 EXTENT, RATES OUGHT TO BE AVERAGED FURTHER?

10 A. The Commission should have at least the following four items available for its review.
11 Only a part of one of these pieces of information has been provided to date in this case.

- 12 • A legitimate cost-of-service study which breaks out the district-specific costs and
13 revenue requirements to the fullest extent practicable.
- 14 • Descriptions of the major plant used to serve each district and some understanding of
15 what these differences imply about the cost to serve customers.
- 16 • A summary of historic levels of investment and customer growth in each of the
17 respective districts.
- 18 • A summary of the proposed future capital improvements and forecasted customer
19 growth for each district.

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1 Q. WHY IS IT NECESSARY FOR THE COMMISSION TO HAVE A LEGITIMATE DISTRICT-SPECIFIC COST-
2 OF-SERVICE STUDY AS OPPOSED TO JUST THE STUDIES FILED BY THE COMPANY AND THE STAFF?

3 A. The "cost to serve" a set of customers is the standard or basis in this state for
4 determining the a utility's revenue requirement. Company's proposal can be logically
5 viewed as an appeal for permission to use *another* basis for setting the rates of its
6 separate districts. Arguably, it is within the Commission's purview to allow such a
7 departure from cost-based rates, since the overall revenue requirement for the total
3 Company may still be cost-based in the aggregate. However, before doing so, the
Commission ought to weigh the potential inequities likely to be produced against the
ends or benefits sought.

The Commission can only properly weigh such considerations by understanding
the financial impacts of such a departure from cost-based ratemaking on the customers
in each district. Such an understanding can only be obtained by a comparing the studies
filed, which ignore such cost differences, with a study that does include district-specific
cost differences.

Q. PLEASE DESCRIBE WHY THE SECOND BULLETED ITEM ABOVE IS IMPORTANT.

A. According to Staff witness Henderson, "All of the customers of Missouri-American
receive similar service." This statement and several others relied on for the *justification*
of uniform rates should bear the Commission's close scrutiny. The extent to which these
statements are true can only be determined if one obtains an understanding of the
differences between the facilities in each district and the cost implications of the different
treatment processes utilized at each facility.

From Mr. L'Ecuyer's direct testimony (p. 3-6) the Commission can understand
the *qualitative* differences that impact the costs. The districts of Brunswick, Mexico,
Warrensburg and Platte County are served by supplies provided from wells. The Joplin

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1 district is supplied predominantly by a surface water treatment plant which takes water
2 from Shoal Creek. The surface water source in Joplin is augmented by four deep wells.
3 The St. Joseph district is supplied by a surface water treatment plant with the Missouri
4 River as a source. St. Charles, in contrast to the other districts relies on finished water
5 supplied by the St. Charles County water plant which is now being augmented by
6 supplies from the city of St. Louis. The local public hearing this week in Warrensburg
7 also provided ample evidence that there are significant differences between the finished
8 water quality among the districts.

9 One can take a rather facile approach (Henderson describes the approach,
10 Direct p. 5 lines 17 -22) and say that the service provided to any customer is just the
11 provision of a commodity, potable water. However, the actual service that is provided,
12 from an economic standpoint, is *not* just the provision of a fungible commodity. The
13 costs are in the treatment and transportation of this commodity, not the raw input itself.
14 MAWC makes no payments to withdraw water from the wells or rivers. The services
15 being provided to the customers in each district, the conversion of the water from the
16 source quality to a potable quality and the associated transportation, are qualitatively
17 very different services for each district.

18 The parties that say that the attendant cost differences do not matter can only
19 credibly do so to the extent that they can demonstrate such cost differences are small.
20 Neither the Staff or the Company has positively demonstrated this in their respective
21 filings.

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1 Q. WHY MIGHT THE HISTORIC AND EXPECTED FUTURE LEVELS OF INVESTMENT AND CUSTOMER
2 NUMBERS IN EACH DISTRICT BE NECESSARY FOR WEIGHING A MOVE TOWARD THE AVERAGING OF
3 DISTRICT-SPECIFIC COSTS?

4 A. As framed by the Staff and the Company witnesses, the proposal for uniform rates is
5 something these parties would like to see adopted on a forward-going basis. While
6 future Commissions may not be bound by the decision in this case I think it's only
7 reasonable for the Commission to consider the future impacts of such a decision might
8 have. The Commission can only adequately do that if it has an idea not only of the
9 investments planned, but also the expected customer base in each district.

10 Q. IS IT YOUR OPINION THAT WHEN PARTIES ADVOCATE SETTING ASIDE WELL-ESTABLISHED
11 REGULATORY PRECEDENT, IT IS INCUMBENT UPON THESE PARTIES TO FULLY SUPPORT THE
12 REASONS FOR SUCH A PROPOSAL?

13 A. Yes, I do. As was mentioned above, in the previous case, WR-90-236, the reason Staff
14 identified for not being able to support uniform rates was the lack of historical precedent.
15 In that case MCWC provided some quantification the effects of its desired move away
16 from cost-based rates with the uniform and equalization rates. Company and Staff have
17 provided none in this case.

18 Public Counsel is *not* saying that any new or innovative proposal should be
19 rejected simply for the lack of a historical precedent; on the other hand historical
20 precedent can be useful and was recognized previously by the Staff as an aid in
21 developing policy.

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1 Q. CONSIDERING THE VERY GENERAL ARGUMENTS ADVANCED BY MR. HENDERSON TO JUSTIFY
2 IGNORING DISTRICT-SPECIFIC COST DIFFERENCES, CAN YOU THINK OF ANOTHER TYPE OF PUBLIC
3 UTILITY THAT MIGHT BEAR A SIMILAR TYPE OF ANALYSIS?

4 A. Telephone service would not bear such an analysis because telephone service is highly
5 interconnected and the service derives a large part of its value from this interconnection.
6 Electric service might be considered an analog to some extent, except there is also a
7 great deal of interconnection there which provides a flexibility to deliver the service from
8 different centers of production.

9 Gas service is actually the closest analog. Like water service, gas service
10 involves the physical delivery of a material or commodity. Also like water, systems that
11 distribute gas are localized to specific districts.

12 Q. HAVE YOU BEEN INVOLVED PREPARING COST-OF-SERVICE STUDIES FOR GAS UTILITIES WHICH
13 HAVE MULTIPLE DISTRICTS?

14 A. Yes, one gas rate case was just recently completed which had multiple but disjoint
15 districts. I am also currently working on another case involving a gas utility which has
16 separate districts.

17 Q. WHAT KINDS OF CALCULATIONS DO YOU PERFORM IN THESE COST-OF-SERVICE STUDIES?

18 A. I perform calculations to allocate the costs of the distribution mains to each of the
19 customer classes. The shared system of distribution mains represents a rather large
20 percentage of the rate base for LDCs and usually engenders some spirited debate.

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1 Q. DO YOU TYPICALLY DO SEPARATE ALLOCATIONS OF THE DISTRIBUTION MAINS FOR THE SEPARATE
2 DISTRICTS IN GAS COST-OF-SERVICE STUDIES?

3 A. Yes, I do.

4 Q. DOES THE STAFF'S ECONOMIC ANALYSIS DEPARTMENT PERFORM STUDIES WHICH BREAK OUT
5 THE COSTS SEPARATE TO THE DISTRICTS IN THESE GAS RATE CASES?

A. Yes, in fact, I use some of the very detailed district-specific usage data which they
develop as inputs to my analyses. The Economic Analysis department puts
considerable effort in performing separate calculations to weather normalize the usage
data of each district.

Q. IN YOUR OPINION, IS THE WORK OF THE ECONOMIC ANALYSIS DEPARTMENT WHICH IS REQUIRED
TO ANALYZE THE DIFFERENT DISTRICTS OF GAS COMPANIES SEPARATELY JUSTIFIED?

A. I believe it is a worthwhile to reflect the cost differences in rates. The gas companies
also believe it is worthwhile.

Q. ARE YOU SPECIFICALLY AWARE OF THE COSTS SAVINGS THAT MIGHT BE HAD IF A GAS COMPANY
HAVING THREE DISTRICTS WERE INSTEAD ANALYZED IN TOTAL INSTEAD AS SEPARATE DISTRICTS?

A. I cannot be exact, but my perception is that 2/3 of the costs *would not* go away. All the
accounting figures still have to be recorded and aggregated. The functional form of the
calculation is consumes a large share of the costs. Once accomplished for one district it
is easily adapted to another with some small modifications.

The "ease of administration" argument doesn't seem like much of justification for
a move toward uniform rates. The cost savings are considerably less in any case than
the subsidies that would be created. That said, I think no parties would object to

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1 spreading the cost of the Company's rate case expense, including the cost associated
2 with a legitimate cost-of-service study across all the districts in an even manner.

3 Q. MR. HENDERSON CITES A LIST OF JURISDICTIONS IN HIS DIRECT TESTIMONY THAT HAVE
4 APPROVED UNIFORM RATES AND/OR ENDORSED THE CONCEPT AS REASONABLE. DO YOU
5 CONSIDER THIS INFORMATION, IN THE DETAIL GIVEN, PARTICULARLY USEFUL AS AN AID TO THE
6 COMMISSION'S DECISION MAKING IN SETTING RATES IN THIS CASE?

7 A. This information by itself is not particularly useful to the Commission. For instance,
8 there is no mention of the specific goals that were desired to be accomplished by each
9 respective Public Utility Commissions ("PUCs"). Obviously, the goals of those PUCs
10 may not be the specific goals with the same relative priorities of Missouri's Public
11 Service Commission. There is no mention of the Company-specific situations of the
12 utilities involved. Finally, and perhaps most important there is no analysis there to
13 indicate if the PUCs were successful in the goals desired and what problems surfaced or
14 whether the rates are still in effect today.

15 Public Counsel would encourage the Commission to look first at *any new*
16 *proposal* based on its own merits and drawbacks to determine the suitability of the said
17 proposition for Missouri; then look to other states which are trying to achieve similar
18 goals and look at the results of the adoption of such proposals, not just whether or not a
19 proposal was adopted.

20 Q. THE PREDOMINANT END THAT IS DISCUSSED IN THE STAFF'S DIRECT FILING AND THE COMPANY'S
21 FILING IS THE AVOIDANCE OF RATE SHOCK. DO YOU SEE THIS AS A COMPELLING REASON FOR
22 ABANDONING COST-BASED RATES FOR THE COMPANY'S DISTRICTS IN THIS CASE?

23 A. No, the Staff and Company have not made any compelling quantitative arguments to
24 demonstrate that the districts of St. Joseph, Joplin and St. Charles would experience an

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1 unacceptable level of rate shock in the current case if rates were simply based on the
2 cost of service.

3 Public Counsel finds it especially hard to believe that St. Charles customers
4 cannot afford to pay for the recent addition of the pipeline connecting MAWC with the
5 city of St. Louis. The reason the capital expenditure was undertaken had to do with the
6 projected increased demand flowing from the burgeoning population of St. Charles
7 county. Any impact there can be expected to decrease steadily for the foreseeable
8 future.

9 Q. IF THIS PROPOSAL OF THE COMPANY AND STAFF IS NOT ABOUT RATE IMPACTS IN THIS CASE,
10 WHAT IS THE MOTIVATION IN YOUR OPINION FOR THE PROPOSAL?

11 A. In my opinion, the motivation arises from the planned investment for St. Joseph.

12 Q. IN YOUR OPINION IS THIS THE TIME FOR THE COMMISSION TO BE DECIDING HOW RATES SHOULD BE
13 SET IF AND WHEN THE PLANNED PROJECT IS PUT INTO SERVICE?

14 A. Absolutely not. The project is **planned**, not completed. What may, or may not be built,
15 is unknown. MAWC has not informed the public at large in St. Joseph that there is a real
16 possibility that the citizens of St. Joseph may indeed have to pay for a major portion of
17 the proposed plant. This plant is proposed to serve them and none of the other districts.
18 The Company has avoided making the public aware of this possibility simply in order to
19 avoid public pressure to be cost-effective in its investments.

20 If this Commission makes a declaration in the certificate case as the Company
21 has requested and then allows rates to be set, ignoring district-specific costs now, then
22 there will be very little incentive left for this utility to be cost-effective in its approach as it
23 makes its future decisions regarding St. Joseph. A future Commission may indeed
24 consider itself hamstrung unwilling to have the courage to reconsider the proposition of

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1 uniform rates if and when some new plant is brought on-line in St. Joseph. Public
2 Counsel believes this would be very bad public policy and clearly detrimental to
3 ratepayers.

4 Q. CAN YOU PROPOSE AN ALTERNATIVE TO THE UNIFORM RATES ADVOCATED BY THE STAFF AND
5 COMPANY IN THE DIRECT FILINGS IN THIS CASE?

6 A. The main drivers in the MAWC's request are the capital additions in the three largest
7 districts. For this reason, Public Counsel proposes that the existing rates be factored up
8 on a district-by-district basis for these plant additions which have recently been brought
9 into service. Any additional revenue requirements can be spread to each of the existing
10 districts based on percentage of revenues after the plant additions are taken into
11 account. This is a reasonable and fair approach which could only be improved upon by
12 performing a full-fledged cost-of-service including the district-specific costs.

13 Q. PUBLIC COUNSEL HAS MADE NO RECOMMENDATIONS CONCERNING INTERCLASS SHIFTS IN THIS
14 CASE. IS PUBLIC COUNSEL IN AGREEMENT WITH THE METHODS AND TECHNIQUES USED BY THE
15 STAFF OR COMPANY TO ALLOCATE THE SHARED COSTS TO THE DIFFERENT CUSTOMER
16 CLASSES?

17 A. Public Counsel has had to concentrate its efforts on the more significant uniform rates
18 question at issue in this case. Public Counsel's silence on these issues should not be
19 regarded as agreement with these parties. If the Commission should choose to accept
20 Public Counsel's recommendation to stay with cost-based rates Public Counsel would
21 advocate the factoring up of existing rates which would keep the class share of revenues
22 constant until such time as a legitimate district-specific cost of service is developed in
23 the next case.

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1 Q. BY REJECTING THE STAFF'S AND MAWC'S PROPOSAL, IS PUBLIC COUNSEL RULING OUT THE
2 POSSIBILITY THAT IT WOULD CONSIDER SOME AVERAGING OF RATES IN THE FUTURE?

3 A. Public Counsel is not ruling that possibility that it would support some kind of averaging
4 of costs if and when such a proposition is adequately supported by the Company or
5 some other party.

6 Public Counsel recommends that, in its next rate case, MAWC or Staff present
7 any such proposals as they wish, along with district-specific cost-of-service information
8 and the desired benefits to be obtained, so that the impacts of moving away from cost-
9 based rates can be quantitatively and adequately weighed against the benefits expected,
10 by all the parties. Public Counsel will be much more amenable to considering such a
11 proposal if it is not an "all or nothing proposition," i.e. average all the district-specific
12 costs. Public Counsel has seen no compelling reason demonstrated by either the Staff
13 or the Company in this case for the departure from the well-established principles of
14 cost-based ratemaking.

15 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY IN THIS CASE?

16 A. Yes, it does.