

Exhibit No.:  
Issues: CCOS, Rate Design  
Witness: William G. Stannard  
Type of Exhibit: Rebuttal Testimony  
Case Nos.: WR-2024-0104  
SR-2024-0105  
Date Testimony Prepared: September 27, 2024

**REBUTTAL TESTIMONY  
OF  
WILLIAM G. STANNARD**

**ON BEHALF OF**

**HOLIDAY INN CLUB VACATION, INC.**

**HOLIDAY INN CLUB VACATION, INC.**

CASE NO. WR-2024-0104  
*September 27, 2024*

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

In the matter of Liberty Utilities (Missouri ) File No. WR-2024-0104  
Water) LLC's Application for Rate Increase. )

State of Missouri )  
 ) SS  
County of Jackson )

**Affidavit of William Stauard**

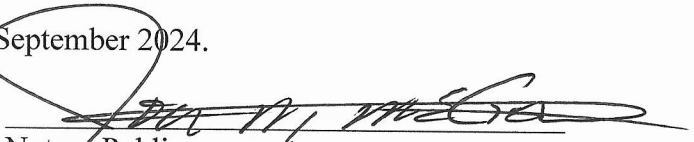
William G. Stannard, being first duly sworn, on his oath states:

1. My name is William Stannard. I am a consultant with Raftelis Financial Consultants, Inc., having its principal place of business at 215 West Pershing Road suite 406, Kansas City, Missouri 64108. We have been retained by Holiday Inn Club, Inc. in this proceeding on their behalf.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. WR-2024-0104 and SR-2024-0105.
3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.

  
\_\_\_\_\_  
William G. Stannard

Subscribed and sworn to before me this 27 day of September 2024.



  
\_\_\_\_\_  
Notary Public

1 **BACKGROUND OF WITNESS**

2 **Q. Please state your name and business address.**

3 A. My name is William G. Stannard and my business address is 215 W. Pershing Road,  
4 Suite 406, Kansas City, Missouri, 64108.

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

6 A. I am Chair Emeritus of the Board of Directors and Executive Vice President of Raftelis  
7 Financial Consultants, Inc., a firm specializing in the provision of financial and  
8 management consulting services to the water and wastewater utility industry.

9 **Q. Did you file direct testimony on behalf of Holiday Inn Club Vacations, Inc. in**  
10 **this proceeding on August 20, 2024?**

11 A. Yes, and I refer the Commissioners to that testimony for a discussion of my  
12 educational background and work experience.

13 **Q. Was this testimony prepared by you or under your direct supervision?**

14 A. Yes.

15 **Q. And is it true and correct to the best of your knowledge?**

16 A. Yes.

17 **Q. Please briefly describe your role in this proceeding.**

18 A. I have been retained as an expert witness by HICV, a water and sewer customer  
19 of Liberty Utilities (Missouri Water), LLC (referred to as “Liberty”). I have been  
20 retained to analyze the testimony and workpapers provided by Liberty and to testify  
21 on HICV’s behalf in this proceeding.

1 **SUMMARY**

2 **Q. Please provide a summary of your testimony.**

3 A. My testimony addresses two areas: (1) Class Cost of Service and Rate Design and (2) the  
4 impact of Liberty’s Bolivar acquisition on non-Bolivar customers.

5  
6 **CLASS COST OF SERVICE AND RATE DESIGN**

7 **Q. Have you reviewed the cost allocation and rate design testimony of Melanie Marek on**  
8 **behalf of the Missouri Public Service Commission Staff?**

9 A. Yes, and I disagree with Ms. Marek’s failure to conduct a Class Cost of Service Study, and  
10 I disagree with Ms. Marek’s recommendation to overweight the fixed cost portion of the  
11 designed rates.

12 **Q. Can you please explain the purpose of allocating costs and designing rates?**

13 A. Once the Commission has established the revenue requirement for Liberty it must then  
14 allocate those revenues across the various customer classes and then set rates in each class  
15 to recover the authorized revenues. Cost allocation is generally accomplished by  
16 performing a Class Cost of Service (“CCOS”) study, which Liberty has done, as explained  
17 by Liberty witness Thomas O’Neill. In general, the CCOS should match costs with the cost  
18 causers to mitigate any cross subsidies among rate classes. The key components of the  
19 water system CCOS include allocation of costs to cost components related to water usage  
20 and cost components related to customer service. The water usage components include  
21 average day usage, maximum day usage and maximum hour usage. The customer cost  
22 components include the costs for meters and services and costs associated with meter

1 reading, billing and collection. Once each rate class has been assigned its responsibility  
2 for recovering an amount of costs, then rates are designed to achieve such recovery.  
3 Rates are usually a function of a fixed monthly charge and one or more variable charges to  
4 recover amounts based on consumption patterns.

5 **Q. How does Staff propose to allocate costs among the customer classes?**

6 A. Staff has proposed to group all residential, commercial and industrial customers together  
7 without regard to class usage characteristics.

8 **Q. Do you agree with this proposal?**

9 A. No.

10 **Q. What issues do you have with Staff's proposed cost allocation?**

11 A. Yes. Ms. Marek does not perform a CCOS, rather stating without support her conclusion  
12 that there is no difference between the consumption patterns of residential and commercial  
13 customers. Nor does Ms. Marek rely upon the CCOS prepared by Liberty. Instead, she just  
14 ignores this step altogether. Thus, Ms. Marek's cost allocation recommendations are  
15 unsupported by any analysis and are unpersuasive. The Commission should allocate costs  
16 using Liberty's CCOS, which remains the only objective analysis in the case.

17 **Q. How does Staff propose to design rates for the residential and commercial classes?**

18 A. Staff proposes a rate design which treats all customers uniformly without regard to any  
19 class cost of service determination.

20 **Q. Do you agree with this proposal?**

1 A. No. Just as cost allocation should follow cost causation, setting the fixed portion of a rate  
2 structure should follow the amount of fixed costs, and the variable portion of the rate  
3 structure should follow costs that vary with usage. Furthermore, Ms. Marek arbitrarily  
4 assigns the fixed portion of the rate 50% and the variable portion of the rate 50%. And I  
5 point out that Ms. Marek did not provide any analysis or study to support such a conclusion.

6 **Q. How should the Commission evaluate the rate design proposed by Liberty, Staff or**  
7 **other intervenors?**

8 A. For more than 60 years regulators have overwhelmingly relied upon the work of James  
9 Bonbright to guide their decisions on cost allocation and rate design, and it is my  
10 recommendation that this Commission do likewise.

11 **Q. How would you interpret Staff's proposed rate design in light of Mr. Bonbright's**  
12 **guidance?**

13 In his seminal work *Principles of Public Utility Rates* Mr. Bonbright set out eight (8)  
14 criteria for establishing a sound rate structure, including rate stability, rate fairness, the  
15 absence of undue discrimination, and rate efficiency.

16 With respect to rate stability, this criterion is associated with the concept of "gradualism,"  
17 or the avoidance of rate shock. Given the sheer size of the increase sought by Liberty in  
18 this case, some rate shock will be inevitable. But Staff increases the prospect of rate shock  
19 even more by arbitrarily increasing the fixed portion of monthly rates. For instance, in his  
20 direct testimony Liberty witness O'Neill proposes a fixed monthly charge of \$32.04 for a  
21 ¾ inch Water meter, which represents a proposed increase of 20% for Holiday Hills, Timber

1 Creek and Ozark Mountain Silverleaf customers. Of course, the amount of the proposed  
2 revenue requirement will likely be reduced as a result of this case, but if Ms. Marek's  
3 proposal to arbitrarily require 50% of all costs be recovered by a fixed monthly charge, the  
4 resulting increase over prior rates using the same proposed revenue requirement results in  
5 an increase of 73%. In other words, just by itself, Ms. Marek's proposal to arbitrarily assign  
6 50% of all costs to the fixed charge increases rate shock by more than double, which clearly  
7 violates Bonbright's principle of rate stability.

8 With respect to rate fairness and undue discrimination, over-reliance on a fixed rate to  
9 recover variable costs forces low-usage and low-income customers to subsidize customers  
10 with higher usage. Because these customers use less water, a higher monthly fixed cost  
11 forces these customers to subsidize the usage of other customers that use more water. In  
12 my mind, designing rates that burden the lower end of the income and usage scale to benefit  
13 the larger, wealthier customers raises clear fairness and undue discrimination concerns.

14 Finally, with respect to rate efficiency, this criterion looks at whether the rate encourages  
15 or discourages wasteful usage. One way to look at this criterion is whether the rates send a  
16 proper price signal to consumers such that they effectively make optimal decisions about  
17 their usage. But by over-recovering variable costs through the fixed portion of the bill,  
18 Staff's proposal reduces the price signal to consumers and thereby actually encourages  
19 higher usage. If the price to the customer for increased usage is less than the actual costs  
20 incurred due to a portion of those costs already being recovered through a fixed monthly  
21 charge, then consumers are incentivized to overconsume in violation of Mr. Bonbright's  
22 rate efficiency criterion.

1 **Q. What is your recommendation with respect to Ms. Marek’s proposals on cost**  
2 **allocation and rate design?**

3 A. I recommend that the Commission reject Ms. Marek’s proposals and instead rely upon the  
4 cost allocation and rate design proposed by Liberty, with the modification I proposed in  
5 my direct testimony on rate design, which do a better job of describing actual customer  
6 usage by class, mitigating the inevitable rate shock to customers, eliminating cross  
7 subsidies both among and within customer classes, and sending a proper price signal to  
8 consumers.

9 **BOLIVAR ACQUISITION**

10 **Q. Have you reviewed the rebuttal testimony filed on behalf of the City of Bolivar?**

11 A. Yes. The City of Bolivar filed the testimony of five witnesses. Four witnesses, Scott Moats,  
12 Thomas Relford, Renee Meyer, and Michael Methvin, represent the interests of Southwest  
13 Baptist University, Citizens Memorial Hospital, the administration of the City of Bolivar  
14 and the Bolivar school system, respectively. These four witnesses work from the same  
15 template and argue (1) Liberty misrepresented the impact of the rates it would seek to  
16 implement in 2024 when it sought their approval to support Liberty’s acquisition of the city  
17 water and wastewater systems, and (2) Liberty’s proposed increase would more than double  
18 their existing rates and create a financial hardship for each of the entities represented by  
19 these witnesses. Ms. Jessica York, a Principal with Brubaker and Associates, also filed  
20 testimony on behalf of the City of Bolivar, her testimony takes issue with Liberty’s CCOS,  
21 asserts that excessive costs have been allocated to Bolivar, including \$9.24 million (66%)



1 in water rate base. She recommends setting rate base for the Bolivar system at the level  
2 identified in the Liberty acquisition of Bolivar docket, plus the acquisition premium paid  
3 by Liberty. Finally, she challenges what she characterizes as an alternative proposal that  
4 would allocate excessive revenues recovered from Bolivar sewer customers to non-Bolivar  
5 customers.

6 **Q. How do you respond to the four witnesses from the city government, the schools,**  
7 **Southwest Baptist University and the hospital?**

8 A. I do not opine on what Liberty may or may not have represented to these entities. My only  
9 note is that rates are cost of service based, and Bolivar’s water and sewer rates must be set  
10 based on the level of reasonable investment and reasonable costs needed to operate those  
11 systems. The fact that some Bolivar entities feel that Liberty misrepresented the expected  
12 impact of new rates is not a legitimate reason to require non-Bolivar customers to assume  
13 any of the costs or rate base that is tied to those Bolivar systems.

14 **Q. How do you respond to Ms. York?**

15 A. While Ms. York provides a more substantive challenge to Liberty’s proposed Bolivar rates,  
16 she still seemingly wishes to push some costs back on non-Bolivar customers. Liberty’s  
17 calculated CCOS may be flawed in some areas, but it still represents the only evidence-  
18 based analysis of cost causation for and among the two separate rate districts and within  
19 customer classes. While I do not take a position on whether or not Liberty should set rate  
20 base for the Bolivar water system at book costs plus acquisition premium, if the  
21 Commission sets rate base using this methodology, it still must set rate base for the non-

1 Bolivar water system at the net level of investment used and useful providing service to  
2 just the non-Bolivar customers. Again, non-Bolivar customers should not have to subsidize  
3 Bolivar customers when they receive no benefit from the acquisition. It also bears  
4 mentioning that the City of Bolivar was paid the acquisition premium, so they already  
5 received a direct benefit from the acquisition not shared with the non-Bolivar customers.  
6 And while this premium was not paid directly to Bolivar customers, those customers  
7 benefit from the City's payment from Liberty as it defrays expenses that may otherwise  
8 have required additional taxation. Finally, with respect to Liberty's alleged over-recovery  
9 of sewer rates from Bolivar ratepayers, if this is true than those additional revenues should  
10 accrue to the benefit of the Bolivar ratepayers that overpaid.

11 **Q. Does this conclude your testimony?**

12 **A. Yes.**