

Exhibit No.:
Issues: CCOS, Rate Design,
Depreciation
Witness: William G. Stannard
Type of Exhibit: Surrebuttal Testimony
Case Nos.: WR-2024-0104
SR-2024-0105
Date Testimony Prepared: October 24, 2024

**SURREBUTTAL TESTIMONY
OF
WILLIAM G. STANNARD**

ON BEHALF OF

HOLIDAY INN CLUB VACATION, INC.

HOLIDAY INN CLUB VACATION, INC.

CASE NO. WR-2024-0104
October 24, 2024

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


In the matter of Liberty Utilities (Missouri) File No. WR-2018-0170
Water) LLC's Application for Rate Increase.) SR-2018-0171

State of Missouri)
) SS
County of Jackson)

Affidavit of William Stannard

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 sur-rebuttal testimony and exhibits 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

Subscribe and sworn to before me this 24 day of October 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, Suite
4 406, 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 previously file direct and rebuttal testimony in this proceeding on behalf of**
10 **Holiday Inn Club Vacations, Inc. (“HICV”) in this proceeding on August 20, 2024?**

11 A. Yes, and I refer the Commissioners to my direct 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 of Liberty
19 Utilities (Missouri Water), LLC (referred to as “Liberty”). I have been retained to analyze
20 the testimony and workpapers provided by Liberty and to testify on HICV’s behalf in this
21 proceeding.

22 **Q. Please provide a summary of your sur-rebuttal testimony.**

1 A. My sur-rebuttal testimony addresses the negative consequences of Commission Staff's
2 proposal to arbitrarily assign a 50/50 split between fixed and variable costs in its rate design
3 for water without the benefit of any class cost of service analysis or other objective
4 evidentiary support. I recommend that the Commission utilize the same allocation between
5 fixed and variable charges proposed by Liberty based on its class cost of service analysis.
6 In addition, I support Commission Staff's recommendation to set depreciation rates for
7 Liberty using the rates approved for Liberty in the last litigated rate case, but also agree
8 with OPC's recommendations to correct Staff's calculations of depreciation rates and the
9 associated expense.

10 **Q. Please describe Liberty's proposed rate design?**

11 A. Liberty has proposed consolidation of rates for all its Missouri water and sewer systems
12 except for the City of Bolivar, which I will refer to as the non-Bolivar customers. Since
13 my client is in the non-Bolivar customer group, I focus my remarks on the rates for Non-
14 Bolivar customers. For the water rate design Liberty proposes a fixed monthly service
15 charge based on the size of the customer's water meter and a volume rate for each customer
16 class (residential, commercial and industrial) applied to the amount of water used. For the
17 sewer rate design Liberty proposes a uniform fixed monthly charge per customer.

18 **Q. Is this proposal supported by any objective evidence?**

19 A. Yes. Liberty witness Thomas O'Neill performed a class cost of service study, and Liberty's
20 proposed rate design is based upon this analysis.

21 **Q. What is a class cost of service study and why is it important?**

22 A. Liberty provides water service to three different groups, or classes, of customers which
23 include residential, commercial, and industrial customers. The water usage characteristics

1 of each of these classes differ as do the costs of providing the water service. The class cost
2 of service study determines the cost of serving each customer class in proportion to its
3 usage characteristics. The cost allocation methodology used by Mr. Oneill is commonly
4 referred to as the base-extra capacity methodology. Costs are allocated to base, or average,
5 day demand and to maximum day and maximum hour demands in excess of an average
6 day. In addition, costs which are related to customer service are identified and allocated to
7 cost categories of meters, services and customer care. The class cost of service study
8 develops units of service for each customer class, including maximum day and maximum
9 hour demand factors, the number of equivalent 5/8 in meters and the number of bills. This
10 industry standard methodology is described in detail in the American Water Works
11 Association Manual M1. The results of the class cost of service study enable the design
12 of fair and equitable rates consistent with the utility's cost of service and prevent cross class
13 subsidization.

14 **Q. Is Liberty's proposed rate design for water consistent with the rate design approved**
15 **for Liberty in the last litigated rate case?**

16 A. Yes.

17 **Q. What rate design for water does the Commission Staff propose?**

18 A. Commission Staff supports the consolidation of Liberty's Non-Bolivar systems and
19 proposes a fixed monthly service charge based on water meter size but proposes a sole
20 volumetric rate for all users regardless of customer class unlike the design last approved
21 by the Commission. Staff's proposal allocates 50% of costs to the fixed charge and 50% to
22 the volumetric charge.

23 **Q. Did Commission Staff provide any analysis supporting its proposal?**

1 A. No. Staff states that a class cost of service is unnecessary.

2 **Q. On what basis does Commission Staff decide that a class cost of service study is**
3 **unnecessary?**

4 A. None. Staff simply asserts that it is unnecessary and ignores the actual class cost of service
5 study performed by Liberty that is already in the record.

6 **Q. Does Staff provide any analysis of the impact of its arbitrary rate design?**

7 A. No.

8 **Q. Does Staff provide any analysis or evidence supporting why a 50% fixed charge is**
9 **necessary or consistent with the Company's actual fixed costs.**

10 A. No. Staff simply asserts that it favors a 50/50 split between fixed and variable costs without
11 other comment. It is completely arbitrary.

12 **Q. How do you see Staff's rate design proposal affecting both your client specifically and**
13 **other customers of Liberty?**

14 A. HICV owns and operates time-share resort properties, which means that many of its units
15 may be unoccupied throughout the year. Some of the buildings housing individual units
16 may be master-metered at the building level, while several are metered and billed on a
17 per/unit basis. Importantly, Liberty's investment in water system infrastructure ends at the
18 building whether water usage is billed at the building level or the individual unit level.
19 Liberty invests in the size of pipe necessary to support water usage at each building
20 whether or not the units inside the building are individually metered. In other words, the
21 location of the meter does not impact Liberty's investment in water plant at all. But by
22 arbitrarily increasing the fixed amount each customer must pay on a monthly basis without
23 respect to actual water usage, Staff's proposal negatively impacts my client by increasing

1 the fixed costs for units that may be unoccupied and not consuming any water. This
2 amounts to a windfall to the utility since it is not tied to any actual fixed investment that
3 must be recovered.

4 **Q. Have you performed any analysis of the negative impact on HICV time-share owners?**

5 A. Yes. Exhibit 1 presents a comparison of the impacts of the Liberty water rate proposal and
6 the Staff's water rate proposal with the current water rates for a range of water usage levels.
7 As shown on the Exhibit, the impact of Staff's arbitrary reliance on a higher fixed monthly
8 charge increases the average monthly bills for usages between 1,00 gallons and 2,500
9 gallons by 50% to 60% while under the Liberty water rate design proposal the bills will
10 increase 27% to 32%, significantly less than bills under the Staff proposal. Under Staff's
11 water rate design proposal higher usage bills would see substantially lower bills at the
12 expense of lower water usage bills. In other words, lower usage customers would be
13 subsidizing higher usage customers. Staff's water rate design proposal encourages
14 inefficient and wasteful water usage and unduly burdens lower volume use customers.

15 **Q. Are other Liberty customers negatively impacted by Staff's arbitrary proposed water
16 rate design?**

17 A. Yes. Low-income and low-usage customers across Liberty's system will be penalized by
18 having to pay higher fixed costs and having to subsidize higher use customers even when
19 they seek to conserve water usage.

20 **Q. Are there any other reasons why you oppose Staff's arbitrary high-fixed cost
21 proposal?**

22 A. Yes. As I outlined in my rebuttal testimony, Staff's arbitrary proposal fails to meet the
23 criteria for rate design articulated by James Bonbright and used historically by regulators

1 across the country to design rates for utilities. In particular, Staff's arbitrary proposal fails
2 to meet many of the criteria for design of a rate structure including rate stability, rate
3 fairness, the absence of undue discrimination and rate efficiency.¹ I discuss the application
4 of these criteria to Staff's proposal in my rebuttal testimony and I direct the Commissioners
5 there for a more in-depth discussion. But in short, Staff's recommendation increases rate
6 shock for customers, creates internal class subsidies from lower income/usage customers
7 to higher income/usage customers, and actually incentivizes customers to overconsume
8 water because variable costs associated with usage are now being recovered through the
9 fixed monthly charge.

10 **Q. How does Staff's proposal affect a state's desire to promote conservation of water**
11 **resources?**

12 A. Staff's proposal undermines conservation efforts by sending an improper price signal to
13 customers. Rate regulation is intended to mimic a market, designing utility rates that would
14 prevail as closely as possible to market rates if the utility were not a monopoly. This
15 requires that transparent price signals be provided to customers to enable them to make
16 efficient decisions. By recovering a portion of variable consumption costs through the fixed
17 charge, customers are incentivized to consume more water because the cost is below
18 market.

19 **Q. Are there other rate design issues that you wish to comment on?**

20 A. Yes. HICV supports the continued separation of the City of Bolivar system and the non-
21 Bolivar systems when calculating rates, both in this case and in the future. Liberty
22 customers derive no benefit from additional investment in the Bolivar system to bring that

¹ Bonbright, James C., Principles of Public Utility Rates, Columbia University Press, New York, NY, 1961 p. 292.

1 system up to standard. There is simply no nexus between the Bolivar system and the non-
2 Bolivar systems that could justify consolidation now or in the future.

3 **Q. Are there any other non-rate design rebuttal issues that you wish to discuss?**

4 A. Yes. In my initial direct testimony I noted that the depreciation study performed by Mr.
5 Watson did not provide sufficient evidence to support the proposed increase in depreciation
6 rates. My analysis focused on the unsupported and unlikely event that so many categories
7 of plant would have a negative salvage value. I proposed that the Commission continue to
8 use the depreciation rates approved in Liberty's last litigated rate case, Cause No. WR-
9 2018-0170. Commission Staff and the Office of Public Interest Counsel agreed. However,
10 in her testimony, Staff witness Amanda Coffey erred when calculating the applicable
11 depreciation expense for this case when updating for the new plant investment numbers.
12 OPC witness John Robinett in his rebuttal testimony corrected Staff's calculation. I support
13 both Staff and OPC in proposing that Liberty continue to use their last litigated depreciation
14 rates, as corrected by OPC witness Mr. Robinett.

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

16 A. Yes.

Exhibit 1**Example HICV Water Bills**

| Usage(gallons) | Current | Company | % Increase | Staff | % Increase |
|-----------------------|----------------|-----------------|-------------------|-----------------|-------------------|
| | Rates | Proposed | | Proposed | |
| 1,000 | 33.53 | 42.42 | 27% | 53.54 | 60% |
| 1,500 | 36.97 | 47.61 | 29% | 57.27 | 55% |
| 2,000 | 40.41 | 52.80 | 31% | 61.00 | 51% |
| 2,500 | 43.85 | 57.99 | 32% | 64.73 | 48% |
| 4,000 | 54.17 | 73.56 | 36% | 75.92 | 40% |
| 10,000 | 95.45 | 135.84 | 42% | 120.68 | 26% |
| 20,000 | 164.25 | 239.64 | 46% | 195.28 | 19% |