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Classification, Consolidated
Billing, St. Joseph Plant
Retirement, Security AAO,
Revenue Contribution
Witness: Edward J. Grubb
Exhibit Type: Surrebuttal Testimony
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2003-0500
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2003-0500

**SURREBUTTAL TESTIMONY
OF
EDWARD J. GRUBB**

**ON BEHALF OF
MISSOURI-AMERICAN WATER COMPANY**

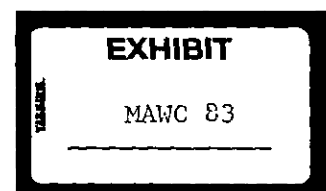
JEFFERSON CITY, MISSOURI

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Service Commission**

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Date 12-16-03 Case No. WR-2003-0500
Reporter SLKM



BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

IN THE MATTER OF MISSOURI-AMERICAN)	CASE NO. WR-2003-0500.
WATER COMPANY FOR AUTHORITY TO FILE)	
TARIFFS REFLECTING INCREASED RATES)	
FOR WATER SERVICE)	

AFFIDAVIT OF EDWARD J. GRUBB

Edward J. Grubb, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying surrebuttal testimony entitled "Surrebuttal Testimony of Edward J. Grubb"; that said surrebuttal testimony and schedule(s) were prepared by him and/or under his direction and supervision; that if inquires were made as to the facts in said surrebuttal testimony, he would respond as therein set forth; and that the aforesaid surrebuttal testimony and schedule(s) are true and correct to the best of his knowledge.

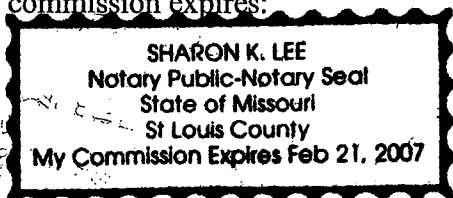
Edward J. Grubb

Edward J. Grubb

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
before me this 2nd day of December 2003.

Sharon R Lee
Notary Public

My commission expires:



SURREBUTTAL TESTIMONY
EDWARD J. GRUBB
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2003-0500

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WITNESS INTRODUCTION

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

A. Edward J. Grubb, Director Rates and Revenue for Missouri-American Water Company, 535 N. New Ballas Road, St. Louis, Missouri 63141.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes, I have submitted Direct and Rebuttal Testimony in this proceeding.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my Surrebuttal Testimony is to address and respond to various comments and discussions made by certain parties in their Rebuttal Testimony. I will be addressing the rebuttal testimony of the Missouri Commission Staff ("Staff"), Office of Public Council ("OPC") and the Missouri Energy Group ("MEG"). The specific issues that I am addressing can easily been seen in the table of contents.

RECOVERY OF OLD ST. JOSEPH TREATMENT PLANT RETIREMENT

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY ON THIS ISSUE?

A. The purpose of my surrebuttal testimony is to address the comments made by the Office of Public Counsel (OPC) witness Bolin as to the recovery of investments made by the Company in the old St. Joseph treatment plant.

Q. WHAT IS THE NATURE OF THE OPC'S COMMENTS ON THIS ISSUE AS FOUND IN OPC WITNESS BOLIN'S REBUTTAL TESTIMONY?

1 A. The OPC has attempted to deflect the real issue related to the Company's request to recover in
2 rates the cost associated with the premature property retirement of the old St. Joseph
3 Treatment Plant by focusing on principles associated with a return "on" investments.
4

5 **Q. WHAT IS THE REAL ISSUE?**
6

7 A. The real issue is that the Company has not fully recovered the costs associated with the old St.
8 Joseph Treatment Plant. In other words, the Company has not received a return "of" its
9 investment. It is this return of the investment that MAWC seeks through the proposed
10 amortization.
11

12 **Q. WHY ARE THE ARGUMENTS OF OPC IRRELEVANT TO THE REAL ISSUE OF**
13 **RECOVERY OF THE OLD ST. JOSEPH TREATMENT PLANT INVESTMENT?**
14

15 A. OPC witness Bolin makes arguments related to whether the old St. Joseph treatment plant is
16 "used and useful" and also discusses "the matching principle." The ratepayers received the
17 benefit of the old St. Joseph treatment plant for many years. During that time, the
18 Commission set depreciation rates, which should have been designed to provide MAWC with
19 a return of its investment during the life of the plant. Unfortunately, current and prior
20 depreciation rates were not sufficient to recover all of the costs and the retirement of the plant
21 caused the recognition of a significant un-depreciated balance. Depreciation rates should be
22 set so that they would allow the Company to recover the costs associated with the assets
23 during the life of assets. However, the Company should not bear the risk of the insufficiency
24 of the Commission's ordered depreciation rates.
25

26 **Q. OPC WITNESS BOLIN AGAIN ARGUES ON PAGE 4 OF HER REBUTTAL**
27 **TESTIMONY THAT IT IS "UNREASONABLE" FOR THE RATEPAYERS TO BE**
28 **RESPONSIBLE FOR COSTS ASSOCIATED WITH ASSETS THAT ARE NO**
29 **LONGER IN SERVICE. IS IT REASONABLE FOR THESE COSTS TO GO**
30 **UNRECOVERED?**
31

1 A. No. Ms. Bolin fails to discuss the fact the ratepayers never provided through rates a recovery
2 of the full cost of the old St. Joseph Treatment Plant. This fact appears to be lost. It is
3 unreasonable and unfair, and likely unlawful, to not allow the Company to recover the costs
4 of any significant un-depreciated asset, where that under depreciation resulted from
5 depreciation rates set by the Commission.
6

7 **Q. HOW DOES THE COMPANY PROPOSE TO ADDRESS THE UNDER**
8 **DEPRICIATED AMOUNTS?**
9

10 A. The Company is proposing an amortization of the amount over a 20-year period.
11

12 **Q. IS THE COMPANY PROPOSING TO INCLUDE THE UNAMORTIZED BALANCE**
13 **IN RATE BASE?**
14

15 A. No. In this rate case, the Company is only proposing a "return of" the un-depreciated balance.
16

17
18 **SECURITY COST AAO**
19
20

21 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY ON THIS**
22 **ISSUE?**
23

24 A. The purpose of my Surrebuttal Testimony is to address the comments made by the Office of
25 Public Counsel witness Bolin concerning the accounting authority order (AAO) for security
26 expenditures granted by the Commission in Case No. WO-2002-273.
27

28 **Q. WHAT DOES THE OPC RECOMMEND IN MS. BOLIN'S REBUTTAL**
29 **TESTIMONY?**
30

31 A. The OPC recommends that the Company not be permitted to recover in rates either the
32 amortization of the Security AAO costs or the return on the unamortized balance of the

1 deferred Security AAO Costs. The OPC also recommends disallowance of the legal fees
2 associated with litigating the AAO case before the Commission.

3
4 **Q. HOW DO YOU RESPOND TO THE OPC'S ARGUMENTS RELATED TO THE**
5 **RECOVERY OF THE LEGAL COSTS, AMORTIZATION AND THE RECOVERY**
6 **OF A RETURN ON THE UNAMORTIZED BALANCE OF THE SECURITY AAO**
7 **COSTS?**

8
9 A. OPC provided no justification for disallowing the legal fees. Therefore, their
10 recommendation should be rejected.

11
12 The OPC has historically been opposed to a great majority of requests by Missouri utilities for
13 accounting authority orders. This Commission has not accepted this view and has recognized
14 the need for a regulatory tool that would allow for a utility to recover in rates costs from
15 outside a test year in certain circumstances. This tool is the accounting authority order.

16
17 However, the OPC seems to not accept that it may be in the best interests of the ratepayers
18 and the Company to provide for an AAO in certain instances. On page 8, line 1, of her
19 Rebuttal Testimony, OPC witness Bolin states, "Unless all factors are analyzed, it is not
20 normally appropriate to single out one specific event." I believe that the Commission has
21 determined that this is not a "normal" circumstance.

22
23 I have previously discussed the other arguments put forth by the OPC on this issue in my
24 rebuttal testimony.

25
26 **Q. ON PAGE 9 OF HER RBUTTAL TESTIMONY, MS. BOLIN STATES THAT "TO**
27 **ALLOW THE DEFERRAL OF ON-GOING COSTS WILL RESULT IN THE**
28 **RATEPAYERS PAYING IN EXCESS OF 100 PERCENT OF THE ANNUAL COST**
29 **OF SERVICE FOR SECURITY MEASURES." IS THIS A TEST TO BE APPLIED**
30 **BY THE COMMISSION?**

1 A. No. This statement is irrelevant in determining the amount of the security costs to be
2 recovered in rates. The rates in this rate case should be set to allow the recovery of costs that
3 are just and reasonable. They are not set based on what is and what is not deemed to be 100%
4 of an annual level of costs. Any time the Commission allows recovery of amounts deferred
5 pursuant to an accounting authority order there is a high probability that the company will
6 recover in the next case an amount greater than the annual cost for those specific items. That
7 is the purpose of an accounting authority order. It allows the company to bring forward into
8 its next rate case costs that would otherwise not be recovered. The OPC's concern appears to
9 be with the general nature of accounting authority orders, not with anything peculiar to this
10 AAO.

11
12 **Q. WHY DOES MS BOLIN INDICATE THAT OPC OPPOSES THE COMPANY'S**
13 **REQUEST FOR A RETURN ON THE SECURITY COST AAO DEFERRAL?**

14
15 A. Ms. Bolin states that the OPC is opposed to providing the Company with a "return on" of the
16 deferral because it provides a "guaranteed return of the deferral associated with the security
17 AAO" (Bolin Rebuttal, p. 9-10). The Company sees this argument simply as an "excuse" for
18 not allowing the rate base treatment. There is no fundamental difference between a request by
19 a utility to recover a "return on" an AAO deferral and the "return on" of plant expenditures.
20 Until new rates are set, the shareholders have borne the cost of the expenditures. What should
21 be the determining factor here is the reason for the deferral and who benefits from the
22 deferral. In my Rebuttal Testimony, I have previously discussed the issue of who benefits
23 from the Security AAO and why the Company should be permitted a return on of the security
24 AAO.

25
26 **Q. ON PAGE 10 OF HER REBUTTAL TESTIMONY, OPC WITNESS BOLIN**
27 **SUGGESTS THAT DEFERRED INCOME TAXES ASSOCIATED WITH THE**
28 **DEFERRAL SHOULD BE TREATED AS AN OFFSET TO RATE BASE, "IF THE**
29 **COMPANY RECEIVES AN AMORIZATION OF THE SECURITY AAO". DO YOU**
30 **AGREE WITH HER SUGGESTION?**

1 A. I agree that deferred income taxes should be used as an off set to rate base, if the Company is
2 allowed to receive a return on the unamortized balance of the AAO through rate base. If, on
3 the other hand, the Company were not allowed to earn a return on the unamortized balance,
4 there would not be an off set associated with the AAO deferral. In her discussion, Ms. Bolin
5 discusses the impact on rate base for one type of deferred income tax element. That element
6 is the deferred taxes associated with accelerated depreciation on utility plant. Ms. Bolin
7 discusses how the deferred tax liability associated with utility plant in service is created. Her
8 example here keys on the deferred taxes associated with utility plant in service. The
9 Company is permitted to earn a "return on" the assets that are recorded to the utility plant
10 account. Therefore, as the Company depreciates the plant for tax purposes, deferred taxes that
11 result are recovered in rates. It is these deferred taxes that give rise to a rate base reduction
12 since they were collected from the ratepayers. This is not the case with the Security AAO
13 deferral. The Company is not requesting that these deferred taxes be recovered from the
14 ratepayers in rates. The ratepayers will receive the benefit of the tax deduction when the
15 AAO costs are recovered in rates. Only if the Commission should allow the unamortized
16 balance of the AAO deferral in rate base, should the deferred taxes associated with the AAO
17 serve to reduce the deferral.

18
19 **Q. MS BOLIN'S REBUTTAL TESTIMONY, ON PAGES 10-13, CONTAINS A**
20 **GENERAL DISCUSSION OF THE DEFERRED INCOME TAXES ASSOCIATED**
21 **WITH THE SECURITY AAO DEFERRAL. DO YOU AGREE WITH OPC'S**
22 **DESCRIPTION OF THE DEFERRED INCOME TAXES?**

23
24 A. No, I do not. Ms Bolin has inaccurately described the appropriate use of deferred income
25 taxes. First, on page 10, line 19, Ms. Bolin states that deferred income taxes are "clearly
26 ratepayer" supplied funds. This blanket statement is incorrect. Only deferred income taxes
27 that have been included in the cost of service and reflected in rates should be included as a
28 rate base reduction. The current balance on the Company's books and records for deferred
29 income taxes related to the Security AAO did not occur until the 4th quarter of 2001. This
30 Commission in September 2000, May 2001 and December 2000 set the current MAWC rates.
31 All current rates were set before the first recording of the deferred taxes associated with

1 security costs. Therefore, ratepayers have not provided these funds.

2
3 Ms. Bolin also inaccurately indicates that deferred taxes remain ratepayer funds regardless of
4 any subsequent regulatory treatment of the original investment that gave rise to the deferred
5 income taxes. Again, OPC attempts to argue that any deferred tax balance on the balance
6 sheet is ratepayer supplied. This is simply an incorrect statement. At this point in time, the
7 Commission has not yet allowed recovery of the deferred income tax associated with the
8 Security AAO. Only if the Commission makes provision for such recovery would it be
9 appropriate to consider the use of deferred income taxes as an off set to rate base.
10

11
12 **METHODOLOGY CHANGE IN CALCULATING AFUDC**
13

14 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY ON THIS**
15 **ISSUE?**
16

17 A. The purpose of my surrebuttal testimony is to address the comments made by the Office of
18 Public Counsel witness Bolin concerning the calculation of AFUDC.
19

20 **Q. WHAT IS THE NATURE OF OPC WITNESS BOLIN'S COMMENTS ON THIS**
21 **ISSUE?**
22

23 A. Ms. Bolin has come to the conclusion from a reading of the Commission Report and Order in
24 Case No. WR-2000-281 that MAWC was ordered to use a specific rate or methodology in the
25 future related to Allowance for Funds Used During Construction ("AFUDC"). I believe she
26 has mischaracterized that Report and Order related to the AFUDC issue.
27

28 **Q. IN WHAT WAYS DO BELIEVE THE REPORT AND ORDER HAS BEEN**
29 **MISCHARACTERIZED?**
30

31 A. Starting at line 6 and continuing thru line 34 on page 5 of Ms. Bolin's rebuttal testimony, she
32 has cited the Commission's discussion in the Report and Order from Case WR-2000-281.

1 There are five paragraphs cited from the Report and Order.

2
3 The first paragraph describes what AFUDC is and identifies the issue in the last rate case as
4 being the pre-in-service AFUDC relating to the new St. Joseph plant.

5
6 The second paragraph describes what the Company proposed in the case and what the
7 Commission Staff has proposed.

8
9 The third paragraph further describes the position of the Staff and what rate should be used in
10 determining the amount of AFUDC related to the new St. Joseph plant.

11
12 The fourth paragraph describes what the consequences would be to the Company if the
13 Commission adopts the AFUDC adjustment proposed by the Staff. The Company offered an
14 alternative if the Company should change the methodology.

15
16 The final paragraph is the critical paragraph on the issue raised by the OPC. In this last
17 paragraph, there is no language ordering the company to adopt the use of the Staff's AFUDC
18 calculation position. The Commission identified that rate base should be reduced by
19 \$1,289,674 for the change in the capitalization rate of AFUDC.

20
21 This change ordered by the Commission only related to the costs associated with the St.
22 Joseph treatment plant. The Company recognizes that the dollar level of the short-term debt
23 cited by the Commission in its report and order was the reason for the adjustment to the
24 AFUDC related to the St. Joseph plant. This fact in addition to the fact that the Staff did not
25 propose any adjustment in the St. Louis County case related to AFUDC led the Company to
26 the conclusion that the Commission Staff and the Commission's intent in the last MAWC rate
27 case was to only adjust the AFUDC related to the St. Joseph plant.

28
29 **Q. DID THE COMMISSION DIRECT MAWC TO CHANGE ITS METHOD OF**
30 **RECORDING AFUDC ON A PROSPECTIVE BASIS IN CASE NO. WR-2000-281?**

1 A. No. The Commission made no specific statement directing the Company to begin booking
2 AFUDC on a prospective basis, in either the last MAWC rate case or the last St. Louis County
3 rate case, using the Staff's methodology.
4

5 **Q. IF THE STAFF'S PROPOSAL IS ACCEPTED, WHAT WILL BE THE IMPACT ON**
6 **MAWC?**
7

8 A. In its direct testimony in this case, the Staff has proposed to the Commission that an
9 adjustment be made to adjust test year AFUDC by over \$400,000. This adjustment would
10 again result in an asset write-off.
11

12 **Q. IF THE COMMISSION DESIRES TO ACCEPT THE STAFF'S METHODOLOGY,**
13 **HOW SHOULD IT DO SO?**
14

15 A. If the Commission should agree with the Staff on a new methodology of calculating AFUDC,
16 it should do so on a prospective basis and not punish the Company for a change in policy. In
17 my Rebuttal Testimony, I also address an alternative method for calculating AFUDC, if the
18 overall authorized return method of calculating AFUDC is abandoned by the Commission.
19

20 **Q. DID THE COMPANY CHANGE THE WAY IT CALCULATED AFUDC AFTER THE**
21 **LAST MAWC AND ST. LOUIS COUNTY RATE CASES?**
22

23 A. Yes. The Company began using the actual capital structure each month to calculate the
24 AFUDC. This calculation methodology contains the approved return on equity, the actual
25 cost of long-term debt, and the actual cost of preferred and the cost of short-term debt if any
26 existed at the end of the month.
27

28 **Q. WHY WAS THIS CHANGE MADE?**
29

30 A. The reason for the change was due to the Commission's language in the Report and Order
31 stating that it was preferable to using known costs in determining the level of AFUDC. The

1 use of the actual capital structure each month in calculating AFUDC in the Company's
2 opinion responded to the Commission's reasoning in its Order in the last MAWC rate case.
3

4 The Company was also concerned about the impact in calculating AFUDC after the merger of
5 MAWC and St. Louis County Water Company. The last St. Louis County rate case did not
6 address the AFUDC issue. This concerned the Company because it indicated that the
7 Commission was not being consistent in its regulatory treatment of two separate water
8 utilities. After the merger, the Company could not easily use separate AFUDC rates within its
9 financial reporting system. It was therefore decided prior to the merger to use the actual
10 capital structure each month in determining the AFUDC rate.
11
12

13 REVENUE CLASSIFICATION FOR CUSTOMERS

14
15

16 **Q. PLEASE ADDRESS THE TESTIMONY OF MS. M. DIANE DRAINER AND MR.**
17 **DONALD JOHNSTONE CONCERNING CUSTOMER CLASSIFICATIONS.**
18

19 A. Ms. Drainer and Mr. Johnstone have criticized the Company for not having definitions of
20 customer classes included in the tariff. The Company has no objection to including such
21 definitions in its tariff.
22

23 **Q. WHAT ARE THE CLASSIFICATIONS?**
24

25 A. The basic customer classifications are "residential", "commercial", "industrial", "other public
26 authority", "sales for resale" and "private and public fire protection". Attached to my
27 surrebuttal testimony is Schedule EJG-1 which provides the guidelines as to how the
28 Company classifies customers.
29

30 **Q. MR. JOHNSTONE INDICATES THAT THESE CLASSIFICATIONS ARE NEW. IS**
31 **THIS TRUE?**

1
2 A. No. The company has been classifying customers in this manner for many years. The
3 Uniform System of Accounts has always classified customers in this manner for revenue
4 purposes for maintaining the number of customers by class, the total consumption of such
5 classes and other statistics. These classifications also were used for cost allocation purposes.
6

7 What is new is that since the last case, a customers' classification also determines the rate
8 schedule to be applied for each customer. This became necessary as a result of Staff's rate
9 design which was adopted by the Commission in MAWC's last rate case segregating the rate
10 schedule into five different declining rate blocks for each customer class in each district
11 (Please refer to Mr. Herbert's Surrebuttal Testimony). Prior to the last case, a customers'
12 classification did not matter because only one rate schedule applied to all classes.
13

14 **Q. ARE RATE SCHEDULES BY CLASSIFICATION NECESSARY?**
15

16 A. For years, a single declining block rate structure was sufficient to accommodate cost of
17 service requirements. However, it can sometimes be difficult or impossible to focus on cost
18 of service targets by class with one rate schedule and that has been the driving force behind
19 separate rate schedules for each customer class in the industry recently. The Company's
20 approach in this case to having separate rate schedules is to tie the residential rate to the first
21 rate block for the other customer classes so that customer classification is not a factor for the
22 first 100,000 gallons per month, which would includes most customers in each district.
23

24 **CONSOLIDATED BILLING**
25

26 **Q. PLEASE ADDRESS THE CONSOLIDATED BILLING ISSUE PROPOSED BY MS.**
27 **LACONTE.**
28

29 A. Ms. LaConte, representing the Missouri Energy Group ("MEG"), would like the Company to
30 consider consolidating accounts of the same customer located on the same parcel or
31 contiguous parcels of land. This would allow a customer in St. Louis County, with several

1 Rate A accounts, to qualify for a Rate J account which has a lower rate.

2
3 Before a decision to approve consolidated billing is contemplated, the Company needs to
4 determine if the current customer billing system has the ability to perform the necessary
5 billing consolidation without the need for a system program modification. The Company will
6 advise the parties if the current billing system can perform the required billing calculations.

7
8 **Q. WHAT WOULD BE THE REQUIREMENTS FOR A CUSTOMER TO QUALIFY**
9 **FOR CONSOLIDATED BILLING?**

10
11 A. A customer requesting consolidated billing in the St. Louis District would have to make an
12 application for the Company's review and approval. Such application would include, but not
13 necessarily be limited to, the following requirements:

- 14
15 • A map or drawing showing the customer's parcel of land or contiguous parcels
16 and the buildings for the several accounts to be consolidated are in fact
17 contiguous and adjacent to each other and are served off of the same main.
18 • Proof of common ownership.
19 • Account number and address of each account to be consolidated.
20 • Location of each service line from the building to the curb stop.
21 • Statement that customer currently has an account with the Company that is
22 being billed under the Rate J tariff.

23
24 The Company will review each application on an individual basis to determine if such
25 application qualifies for consolidated billing. If the customer meets the consolidated billing
26 requirements, then the billing would take effect concurrently with the effective date of the
27 next general rate increase.

28
29 **Q. WHY WOULDN'T IT BE EFFECTIVE WITH THE COMPANY'S APPROVAL OF**
30 **THE APPLICATION?**

31
32 A. Consolidated billing will, in all cases, reduce revenues. The Company should have the
33 opportunity to reflect the lost revenue associated with those customers under consolidated
34 billing in a general rate case so that the loss of revenue can be made up from other customers.

1 It would allow all parties to review and comment on the request.
2

3
4 **REVENUE CONTRIBUTION BETWEEN DISTRICTS**
5
6

7 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY ON THIS**
8 **ISSUE?**
9

10 A. The purpose of my Surrebuttal Testimony is to address the comments made by the Staff
11 Witness Hubbs on pages 26 – 27 of his Rebuttal Testimony.
12

13 **Q. WHAT ARE STAFF'S COMMENTS AS TO REVENUE CONTRIBUTION**
14 **BETWEEN DISTRICTS IN ITS REBUTTAL TESTIMONY?**
15

16 A. Staff, in the Rebuttal Testimony of Mr. Hubbs, disagrees with the Company's proposal to
17 shift a small portion of the total revenue requirement from five districts of the Company to the
18 St. Louis District. The Company made this proposal to temper the increases in the
19 Brunswick, Mexico, Parkville Water, St. Joseph and Warrensburg Districts. The Company
20 used the same general approach the Commission did in the last MAWC rate case. As noted
21 by Mr. Hubbs in his Rebuttal Testimony, the shift in the revenue contribution in the last case
22 was predicated on not reducing the rates of the Joplin District. In this case, the shift is
23 providing relief to the districts indicated while impacting the St. Louis District by
24 approximately seven tenths of a percentage point (.7%).
25

26 **Q. IN THE LAST MAWC RATE CASE, WHAT WOULD HAVE BEEN THE IMPACT**
27 **TO THE JOPLIN CUSTOMERS HAD MR. HUBBS MADE THE SAME**
28 **RECOMMENDATION THAT HE IS MAKING IN THIS CASE?**
29

30 A. The impact to the Joplin customers would have resulted in a reduction to rates of
31 approximately 12%. The Company's current proposal would increase the St. Louis District
32 revenue requirement by .7%. I believe that the Company's proposal in the current case is

1 reasonable given the Commission's decision in the last MAWC rate case and the small impact
2 that the shift will have on the St. Louis District.

3
4 **Q. WHAT WOULD BE THE IMPACT ON THE FIVE DISTRICTS IF THE**
5 **COMMISSION SHOULD AGREE WITH MR. HUBBS ON THIS ISSUE?**

6
7 A. Based on the Company's original filing, the rates of Brunswick would increase by 109.43%,
8 versus the .04% now being proposed by the Company. The rates of Mexico would increase
9 by 24.12%, versus the 19.77% proposed by the Company. The rates of Parkville (Platte
10 County) would increase 14.17%, versus the 11.85% proposed by the Company. The rates of
11 St. Joseph would increase 13.25%, versus the 10.49% proposed by the Company. And the
12 rates of Warrensburg would increase by 10.21%, versus the 8.99% proposed by the Company.
13 The final determination of the revenue requirement for each district will have an impact on
14 the amount, if any, of the revenue contribution to be shifted in designing rates.

15
16 **Q. IT IS OBVIOUS THAT THE BRUNSWICK DISTRICT WOULD EXPERIENCE THE**
17 **LARGEST INCREASE, IF THE COMMISSION SHOULD NOT APPROVE A**
18 **REVENUE CONTRIBUTION. DO YOU HAVE ANY COMMENTS?**

19
20 A. Yes. In his Direct Testimony, Mr. Hubbs, on page 8, recommends that the rates for the
21 Brunswick customers be established such that they are equal to the second highest rates
22 among the Company's other districts. The Company does not disagree with this approach.
23 However, the rates of Brunswick should not be decreased to attain this goal.

24
25 **Q. MR. HUBBS FURTHER STATES THAT A REVENUE SHIFT TO OTHER**
26 **DISTRICTS WOULD OCCUR DUE TO THE RATE DESIGN FOR BRUNSWICK**
27 **AND THAT OTHER CUSTOMERS OR THE COMPANY SHOULD BEAR THE**
28 **RESPONSIBILITY. DO YOU HAVE ANY COMMENTS?**

29
30 A. Yes. The recommendation made by Mr. Hubbs that the Company should bear the cost is not
31 an option. Having the Company "bear the cost" is another way of saying "confiscation of the

1 Company's assets." The result would be that the Commission would set rates that clearly: 1)
2 are not just and reasonable; and, 2) would not provide the Company with an opportunity to
3 earn its authorized return.

4
5 **Q: DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

6
7 **A: Yes.**

MISSOURI-AMERICAN WATER COMPANY
GUIDELINES FOR REVENUE CLASSIFICATION

Residential:

Sales to single premises residences, or to multiple premises residences where each premises is served through a separate meter.

Commercial:

Sales to multiple premises residences served through a single meter or battery of meters. This would include two (or more) family houses and apartments.

Sales to private schools, colleges, hospitals, churches and other private educational, cultural, social or religious organizations.

Sales to business or manufacturing establishments where the water is not used principally in a manufacturing or processing function. This would include commercial offices or public utilities. Examples under this category are:

- Stores
- Laundries, cleaners, shoe repair and other service establishments
- Garages and service stations
- Hotels, restaurants and bars
- Office buildings
- Sales offices of manufacturing or processing establishments
- Retail florists
- Theatres
- Bowling alleys
- Swim clubs
- Golf courses
- Manufacturing or processing establishments, where water is used principally for sanitary purposes
- Barber shops

Industrial:

Sales to manufacturing or processing establishments where the water is used principally in the manufacturing or processing function. This would include public utility plants using water for steam generation, power production, etc. Examples under this category (assuming principal uses of water for the manufacturing or processing function) are:

- Factories

- Refineries
- Bottling plants
- Food processing plants
- Nurseries

Sales to Public Authorities:

Sales to municipal, county, state or federal agencies (other than sales of water for resale) whether or not such sales are at special contract rates. Examples under this category are:

- City buildings
- Public schools, libraries and hospitals
- Fire stations
- County, state and federal buildings and agencies
- Public housing developments

Sales for Resale:

Sales to private or public water utilities where the water is to be resold to customers of the utilities. Charges for standby service are to be included in this category.

Private Fire Protection:

This category covers all charges for fire protection service other than charges for public fire protection. Examples of fire protection charges included in this category are:

- Private fire hydrants
- Private fire lines with hose connections
- Sprinkler systems
- Note: Fire protection service of the above nature provided to city, county, state or federal agencies is to be classified as private fire protection, and not as public fire protection.