

Exhibit No.: 107  
Issue(s): Rate Design  
Witness: Curtis B. Gateley  
Sponsoring Party: MoPSC Staff  
Type of Exhibit: Rebuttal Testimony  
Case No.: WR-2017-0259  
Date Testimony Prepared: October 27, 2017

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**WATER AND SEWER DEPARTMENT**

**REBUTTAL TESTIMONY**

**OF**

**CURTIS B. GATELEY**

Staff Exhibit No. 107  
Date 11-27-17 Reporter HF  
File No. WR-2017-0259

**INDIAN HILLS UTILITY OPERATING COMPANY, INC.**

**CASE NO. WR-2017-0259**

Jefferson City, Missouri  
October 2017

1 REBUTTAL TESTIMONY

2 OF

3 CURTIS B. GATELEY

4 INDIAN HILLS UTILITY OPERATING COMPANY, INC.

5 CASE NO. WR-2017-0259

6 Q. Please state your name and business address.

7 A. Curtis B. Gateley, PO Box 360, Jefferson City, MO 65102

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

9 A. I am a Utility Policy Analyst II. I work in both the Water and Sewer  
10 Department and in the Energy Resources Department, both of which are in the  
11 Commission Staff Division of the Missouri Public Service Commission ("PSC").

12 Q. Are you the same Curtis B. Gateley that authored direct testimony in this case?

13 A. Yes, I am.

14 Q. What is the purpose of your testimony?

15 A. The purpose of my testimony is to rebut portions of the Direct Testimony of  
16 Office of the Public Counsel ("OPC" or "Public Counsel") witness Dr. Geoff Marke.

17 Q. Did Public Counsel propose a change in rate structure for Indian Hills Utility  
18 Operating Company ("IH" or "Indian Hill's")?

19 A. Yes. Public Counsel proposes to change the current rate structure by creating  
20 seasonal rates. On page 5 of witness Marke's Direct Testimony, Public Counsel proposes to  
21 have non-seasonal rates that cover the months of October through May and to have seasonal  
22 rates for the months of June through September.

23 Q. Are seasonal rates common in the water industry in Missouri?

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1           A.     No. Staff is not familiar with any PSC regulated water utilities that have  
2 seasonal rates. There are some utilities that have defined seasonal customers in their tariffs,  
3 but this addresses how these customers are charged for turn-offs/turn-ons during the months  
4 they are not receiving service.

5           Q.     In what industry are seasonal rates generally seen?

6           A.     Staff is familiar with seasonal rates in the electric industry. In the electric  
7 industry, seasonal rates have been used to recognize the fact that there are higher costs  
8 associated with the running of higher cost generation facilities to meet peak demands, usually  
9 associated with summer usage.

10          Q.     Under what conditions might seasonal rates be appropriate for a water utility?

11          A.     Rates that vary by season could be considered when cost of service within a  
12 customer class varies significantly by season; such as if increasing demand during a portion of  
13 the year required a utility to bring a desalinization plant online or a utility had to purchase  
14 significantly more expensive wholesale water from another provider. In this case, all of the  
15 production and storage infrastructure remain in use year round. Based on Staff's audit, the  
16 cost to provide service is nearly the same in August as it is in January.

17                 Seasonal rates could also be considered in areas where water scarcity is a concern. A  
18 higher commodity rate during the dry season for a utility reliant on precipitation and surface  
19 storage could be reasonable if it were necessary to send a signal to consumers to conserve  
20 water. Indian Hills relies on groundwater, and scarcity is not a concern for most of Missouri.  
21 Finally, seasonal rates could be considered when it is desirable to shift recovery of costs to a  
22 different portion of the year due to external economic concerns. In this case, since  
23 Indian Hills is constructed around a large recreational lake that has lake houses and a marina,

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1 it could be assumed that a significant portion of the customers are more likely to be present  
2 during the summer months. However, no data exists to verify such an assumption.

3 Q. Does Staff support Public Counsel's proposal?

4 A. Staff does not support this proposal. Seasonal rates or separating customers  
5 into two classes such as full-time and part-time customers could be appropriate for this utility,  
6 but not under the construct proposed by Public Counsel. The extremely high customer charge  
7 during the non-summer season could result in the company not having an opportunity to  
8 recover its cost of service. Staff would be open to the concept of charging different rates for  
9 the various customers if they can be properly assigned to similar classes, and the usage and  
10 cost data assigned and evaluated to ensure that the change in rate structure does not lead to  
11 unintended consequences.

12 Q. Is Staff aware of any data that shows when part-time customers are at their  
13 homes and utilizing the water system?

14 A. No. While there are some comments from part-time customers regarding their  
15 likely use of their vacation homes during the summer, these are anecdotal in nature. As stated  
16 in my Direct Testimony, approximately half of the customers are full-time and half are  
17 part-time. Staff has no data that shows part-time customers are not using the properties  
18 outside of the summer season, and there is no prohibition against the use of these properties  
19 during other parts of the year. In fact, it is reasonable to assume that some of the properties  
20 do experience use during fall, winter, and spring for similar reasons they might be used in the  
21 summer. A vacation home still offers an opportunity for a fair weather weekend getaway  
22 during other times of the year. For example, generally, one of the biggest weekends for

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1 | getaways is Memorial Day weekend which occurs at the end of May and would not be  
2 | included in Public Counsel's proposal.

3 | Q. Has Staff proposed any changes to the rate structure?

4 | A. Yes. As pointed out in my Direct Testimony, Staff has proposed to eliminate  
5 | the minimum usage requirement of 4,000. This change was made to address concerns  
6 | expressed by part-time customers who generally do not use 4,000 gallons on a monthly basis.

7 | Q. What is the significance of the county demographics cited by OPC?

8 | A. Because approximately half of the customers are part time and do not reside at  
9 | the subdivision, the demographics from Crawford County likely bear little resemblance to the  
10 | demographics of the customers as a whole. Many customers who are full-time residents  
11 | indicated in written comments, verbal comments at the Local Public Hearing, and in verbal  
12 | comments to Staff that they moved in as retirees. However, if you assume that the data for  
13 | the county in its entirety is a reflection of the socio-economic demographics of the residents in  
14 | Indian Hills, then it does show that overall full-time residents of Crawford County do face  
15 | economic challenges.

16 | Q. Accepting the premise that Crawford County demographics cited in OPC  
17 | witness Dr. Marke's testimony accurately reflect the full-time residents; could the  
18 | non-summer rate proposal place a larger burden on the lowest income customers?

19 | A. Comments from customers indicate part-time use is primarily due to those  
20 | customers who have a second home in the subdivision and use it as a vacation/weekend  
21 | getaway. It is reasonable to assume that on average a customer who owns one of these second  
22 | homes in the subdivision has more wealth than an average customer who resides in the  
23 | subdivision full time. Several of the full-time customers commented that they are retirees on

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1 fixed incomes, and this was echoed during comments at the Local Public Hearing held on  
2 October 18, 2017. If we assume that OPC is correct that part-time customer use occurs only  
3 during the summer, then those wealthier customers who use the least water would be paying  
4 much lower water bills annually than the less wealthy full time customers who use the most  
5 water. Using Staff's cost of service, OPC's rate design would have a seasonal customer  
6 charge of \$53.24, and a commodity charge of \$7.50. The non-seasonal customer charge  
7 would be \$16.11, and the commodity charge would be \$19.93. If we assume (and we can  
8 only assume since we do not have appropriate data at this point) 1,000 gallons of usage per  
9 month for a part-time customer, and 4,000 gallons of usage for a full-time customer, the  
10 estimated rate impact of OPC's proposal is shown in the table below.

	Seasonal Customer Charge	Seasonal Commodity Charge	Resulting Monthly Bill	Seasonal Total
OPC Part-time Customer	\$53.24	\$7.50	\$60.74	\$242.96
OPC Full-time Customer	\$53.24	\$30.00	\$83.24	\$332.96
	Non-seasonal Customer Charge	Non-seasonal Commodity Charge	Resulting Monthly Bill	Non- seasonal Total
OPC Part-time Customer	\$16.11	\$19.93	\$36.04	\$288.32
OPC Full-time Customer	\$16.11	\$79.11	\$95.82	\$766.58
	Part Time Customer		Full Time Customer	
Annual Total Charge	\$531.28		\$1,099.54	

11

12 Q. Would OPC's rate design recover more of the costs during the summer season?

13 A. No. As you can see from the table above, OPC's summer seasonal rate would  
14 include 1/3 of the year, and would recover approximately 1/3 of the cost of service. This does  
15 not accomplish shifting cost recovery to the perceived usage of part-time customers.

16 Q. Are there other concerns with OPC's rate design?

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1           A.     Yes. OPC proposes to recover almost 80% of the cost of service in commodity  
2 rates during the non-summer season. This results in a commodity rate of over \$16 using  
3 OPC's cost of service, almost \$20 using Staff's cost of service. This extremely high  
4 commodity rate could cause customers to take extreme measures to conserve water, which  
5 would cause the Company to have to come in for another rate case to again raise rates. It is  
6 reasonable for more of the fixed costs to be recovered in the customer charge than is proposed  
7 by OPC.

8           Q.     Please summarize Staff's position.

9           A.     Staff's position is that the current rate structure as proposed in my Direct  
10 Testimony is the most reasonable position to take at this time. Public Counsel's proposal  
11 seems to be an attempt to address the issue of part-time versus full-time usage by creating an  
12 artificial seasonal rate structure. If the Commission is interested in addressing the issue  
13 between these two customer "classes", Staff recommends that this divide be addressed in the  
14 Company's next rate case filing. At that time, there will be actual usage data that can be  
15 analyzed to determine the costs that each type of customer is placing on the system and thus,  
16 rates can be developed appropriately. Public Counsel's approach could lead to greater  
17 burdens being placed on the most vulnerable customers without the proper analysis needed to  
18 determine what changes would be appropriate to make.

19          Q.     Does this conclude your testimony?

20          A.     Yes.

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

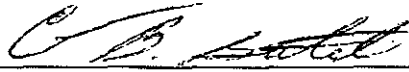
In The Matter of the Rate Increase Request of                    )  
Indian Hills Utility Operating Company, Inc.                    )     Case No. WR-2017-0259

**AFFIDAVIT OF CURT B. GATELEY**

State of Missouri    )  
                                  ) ss  
County of Cole        )

**COMES NOW** Curt B. Gateley, and on her oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Rebuttal Testimony*, and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

  
\_\_\_\_\_  
Curt B. Gateley

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 26<sup>th</sup> day of October, 2017.

  
\_\_\_\_\_  
NOTARY PUBLIC

