

# EXHIBIT

Exhibit No.:

5

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Cost of Service Study

Busch/Surrebuttal

Public Counsel

WR-2003-0500

## SURREBUTTAL TESTIMONY

FILED<sup>3</sup>

OF

JAN 23 2004

**JAMES A. BUSCH**

Missouri Public  
Service Commission

Submitted on Behalf of the Office of the Public Counsel

**Missouri-American Water Company**

Case No. WR-2003-0500

December 5, 2003

Exhibit No. 5-63

Case No(s) WR-2003-0500

Date 12/16/03 Rptr SJM

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

In the Matter of Missouri-American Water )  
Company for Authority to File Tariffs )  
Reflecting Increased Rates for Water )  
and Sewer Service. )

Case No. WR-2003-0500

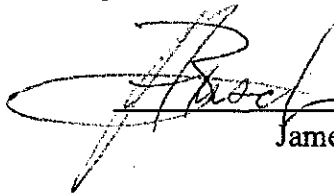
**AFFIDAVIT OF JAMES A. BUSCH**

STATE OF MISSOURI )  
 )  
COUNTY OF COLE )

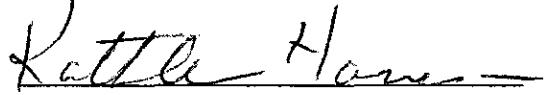
ss

James A. Busch, of lawful age and being first duly sworn, deposes and states:

1. My name is James A. Busch. I am the Public Utility Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony consisting of pages 1 through 4.
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.

  
James A. Busch

Subscribed and sworn to me this 5th day of December 2003.

  
Kathleen Harrison, Notary Public

My commission expires January 31, 2006.



1 costs among customer classes in each district.” (Report and Order, Case No. WR-  
2 2000-281, page 61). However, the Commission did not make any specific finding  
3 regarding OPC’s CCOS study. Earlier in the Report and Order in WR-2000-281,  
4 the Commission merely pointed out that OPC’s CCOS “was criticized by almost  
5 all other parties” (Report and Order, Case No. WR-2000-281, page 61). OPC’s  
6 economies of scale methodology was not adopted by the Commission in that  
7 proceeding; however, it was not rejected as an unreasonable method for allocating  
8 costs among classes.

9 **MIEC WITNESS GORMAN**

10 Q. Do you agree with Mr. Gorman’s criticism on page 12, lines 8 –17 of his Rebuttal  
11 Testimony that you allocated source of supply costs on the base factor allocator?

12 A. No. Source of supply generally includes the following accounts: Land & Land  
13 Rights, Structures and Improvements, Collecting and Impounding Reservoir,  
14 Lake, River and Other Intakes, Wells & Springs, and Supply Mains. I used the  
15 base usage allocator for Land & Land Rights, Structures and Improvements, and  
16 Collecting and Impounding Reservoir. However, for the other accounts, I used a  
17 base, peak day allocator. This allocator takes into account peak day requirements.

18 Q. On pages 12 and 13 of his Rebuttal Testimony, Mr. Gorman cites to the AWWA  
19 Manual “Principles of Water Rates, Fees, and Charges” as an authority on the  
20 appropriate allocation method of source supply. Do you agree with his  
21 explanation of the allocation method for source of supply in the AWWA Manual?

22 A. No. On page 52, the manual states,

23 Investment in **source of supply**, land, land rights, and  
24 impounded reservoir structures in this example is allocated

1 100 percent to the base cost component. Such an allocation  
2 recognizes the fact that such facilities are sized principally  
3 to meet annual supply requirements in total, whether or not  
4 daily needs vary. In some cases reservoirs may function to  
5 provide not only total annual supply requirements but also  
6 to provide for fluctuations in use on a seasonal or daily  
7 basis. Utilities can evaluate each particular local situation  
8 to determine if some portion of the impounded reservoir  
9 related should be allocated to the extra capacity cost  
10 function. The source of supply for many utilities may also  
11 include well supply. In these instances, a portion of the  
12 rate base for source of supply **may be allocated** to  
13 maximum-day or maximum-hour extra capacity, depending  
14 on the basis of design or usage characteristics associated  
15 with the well supply. (emphasis added)  
16

17 This statement indicates that, generally, source of supply should be allocated on a  
18 base cost basis. It does note, however, that in certain instances, a portion of  
19 source of supply **may** be allocated using a maximum-day or maximum-hour  
20 allocator. The manual does not indicate that a portion of source of supply must be  
21 allocated on a maximum-day or maximum-hour basis.

#### 22 ALTERNATE CCOS STUDY

23 Q. Have you performed a CCOS study with the removal of the economies of scale  
24 modification?

25 A. Yes.

26 Q. What are the results of your CCOS study when you eliminate the economies of  
27 scale modification?

28 A. Table 1 below shows the difference in revenue requirement for the Residential  
29 and Industrial classes in each district between my CCOS study filed in Rebuttal  
30 and the alternate CCOS study without the square root.

**Table 1**

		Residential	Industrial
Brunswick	Rebuttal	\$ 129,986	\$ 612
	Alternate	\$ 130,800	\$ 611
Jefferson City	Rebuttal	\$ (12,927)	\$ (1,504)
	Alternate	\$ (13,776)	\$ (1,140)
Joplin	Rebuttal	\$ (277,521)	\$ (132,174)
	Alternate	\$ (290,950)	\$ (120,206)
Mexico	Rebuttal	\$ 152,802	\$ 53,815
	Alternate	\$ 157,040	\$ 50,364
Parkville	Rebuttal	\$ 151,367	\$ 1,621
	Alternate	\$ 152,146	\$ 1,502
St. Charles	Rebuttal	\$ (912,205)	\$ (521)
	Alternate	\$ (917,363)	\$ (414)
St. Joseph	Rebuttal	\$ (170,830)	\$ (73,216)
	Alternate	\$ (175,323)	\$ (69,857)
Warrensburg	Rebuttal	\$ (105,873)	\$ (7,562)
	Alternate	\$ (108,389)	\$ (6,921)
		Rate A	Rate J and D
St. Louis County	Rebuttal	\$ (12,477,098)	\$ (1,877,340)
	Alternate	\$ (12,334,000)	\$ (1,703,799)

OPC is providing these alternate results for comparison purposes.

Q. Does this conclude your surrebuttal testimony?

A. At this time.