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**Missouri Public
Service Commission**

Exhibit No.:

Issue:

Customer Usage

Witness:

James A. Busch

Sponsoring Party:

MO PSC Staff

Type of Exhibit:

Rebuttal Testimony

Case No.:

WR-2015-0301

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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF

REBUTTAL TESTIMONY

OF

JAMES A. BUSCH

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2015-0301

Staff Ex 10

*Jefferson City, Missouri
February 2016*

Staff Exhibit No. 10
Date 3-21-16 Reporter tu
File No. WR-2015-0301

Rebuttal Testimony of
James A. Busch

1 A. I will be addressing the appropriate method Staff recommends the Commission
2 order to determine residential customer usage for MAWC's residential customers in order to
3 determine appropriate revenues.

4 Q. Why is customer usage an issue?

5 A. Customer usage is an issue for two reasons. The first reason is that it is
6 necessary to have normalized customer usage to determine the normalized level of revenues
7 for the utility. Revenue is determined by multiplying the Commission-approved rate times
8 usage. During any given year, usage will fluctuate based on many different factors. Due to
9 this fact, a normalized level of usage must be determined to calculate normalized revenues.

10 The second reason why customer usage is an issue is that normalized usage is used to
11 determine new Commission approved rates on a going forward basis.

12 Q. Please explain.

13 A. In a rate case, the Commission determines an annual amount of revenues that
14 the utility needs to collect to cover its cost of service, referred to as the revenue requirement.
15 Once this amount is determined, the rate analyst must then calculate rates. Generally
16 speaking, there are two components in a water utility's rate structure. One is a fixed customer
17 charge and the other is a commodity charge.

18 Q. How is the customer charge calculated?

19 A. The customer charge is calculated by taking the amount of the water utility's
20 overall revenue requirement that is deemed to be fixed in nature and dividing it by the amount
21 of customers. There is generally very little debate as to the appropriate amount of customers
22 to use in this determination.

23 Q. How is the commodity charge calculated?

Rebuttal Testimony of
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1 A. The commodity charge is calculated by taking the remaining portion of the
2 water utility's overall revenue requirement and dividing it by the normalized usage levels.
3 If the normalized usage levels are too high, the commodity rate will be lower and the water
4 utility may have a harder time collecting its Commission authorized revenues. If the
5 normalized usage levels are too low, the commodity rate will be higher and the water utility
6 will have an easier opportunity to collect more than its authorized revenues. Ultimately, there
7 are many factors that determine if the water utility collects more or less than its Commission
8 approved revenues; however, it is important to establish a fair commodity charge to take this
9 variable out of those factors.

10 Q. What method did Staff use to determine the appropriate residential customer
11 usage per day?

12 A. Staff used a five-year average.

13 Q. Why did Staff use a five-year average?

14 A. Staff used a five-year average because it is the most appropriate and reasonable
15 method to determine a normalized level of residential usage to use to determine the
16 appropriate commodity rate.

17 Q. What method did MAWC use to calculate residential usage?

18 A. According to the testimonies of MAWC witnesses Dunn and Roach, MAWC
19 used a ten-year trend analysis to develop baseline usage with a discretionary amount of usage
20 added to determine total residential customer usage per day. MAWC used this ten-year trend
21 to support its argument that customer usage is declining.

22 Q. Does Staff acknowledge that customer usage appear to be declining?

1 A. Staff is aware that customer behavior has changed over the past 20 – 30 years.
2 More consumers are purchasing water-efficient appliances, showerheads, low-flow toilets,
3 and other water-saving devices. Newer homes are being purchased with more efficient
4 technologies. In contrast, certain new homes within certain subdivisions and other areas also
5 have requirements on lawn watering and more consumers are using sprinkler systems to keep
6 their lawns green and healthy through hot, dry summer months. However, with all of those
7 changes in customer usage patterns, residential customer usage on a per day basis appears less
8 today than it was in the past.

9 Q. Why is Staff's method the most reasonable for use in determining the
10 appropriate normalized usage to determine revenues and ultimately commodity rates?

11 A. Staff's method is the most reasonable because it uses the most recent data to
12 determine normalized usage. Usage patterns may show declining trends over longer periods
13 of time, but in any given three-to-five year period, usage can fluctuate up or down dependent
14 upon various factors that a trend analysis may not pick up. Thus, Staff's use of a five-year
15 average acknowledges that usage patterns have changed over time, but that recent usage
16 patterns are more consistent with current usage patterns.

17 Q. Why is focusing on recent usage patterns important?

18 A. It is important to focus on recent usage patterns because rates for MAWC are
19 set for a period of two to four years. MAWC controls when it chooses to file a rate case;
20 however, it is limited to no more than four years between rate increases due to its use of the
21 ISRS (Infrastructure System Replacement Surcharge). Since rates will be changed in no more
22 than four years from this rate case, using a trend analysis from ten years ago or more will lead
23 to a less reasonable normalized usage level than a five-year average.

Rebuttal Testimony of
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1 Q. Has any other party to this rate case filed testimony regarding normalized
2 customer usage?

3 A. Yes. Office of the Public Counsel witness Lena Mantle also filed testimony
4 regarding residential customer usage.

5 Q. What method did Ms. Mantle use in determining an appropriate level of
6 residential customer usage?

7 A. Ms. Mantle also used a five-year average. However, Ms. Mantle used data that
8 ended with the end of the test year, December 31, 2014, whereas Staff used data through
9 September 30, 2015.

10 Q. What is Staff's recommendation?

11 A. Staff recommends that the Commission use a five-year average to determine
12 the appropriate level of normalized residential usage.

13 Q. Does this conclude your rebuttal testimony?

14 A. Yes.

