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Customer Usage James A. Busch MO PSC Staff Rebuttal Testimony WR-2015-0301 February 11, 2016

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF

REBUTTAL TESTIMONY

OF

JAMES A. BUSCH

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2015-0301

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Jefferson City, Missouri February 2016



1		REBUTTAL TESTIMONY		
2		OF		
3		JAMES A. BUSCH		
- 4		MISSOURI-AMERICAN WATER COMPANY		
5		CASE NO. WR-2015-0301		
6	Q.	Please state your name and business address.		
7	А.	My name is James A. Busch and my business address is P. O. Box 360,		
8	Jefferson City, Missouri 65102.			
9 .	Q.	By whom are you employed and in what capacity?		
10	А.	I am the Regulatory Manager of the Water and Sewer Department of the		
11	Commission Staff Division of the Missouri Public Service Commission ("Commission").			
12	Q.	Are you the same James A. Busch that sponsored portions of Staff's cost of		
13	service report and filed direct testimony in this case?			
14	А.	Yes, I am.		
15	Q.	What is the purpose of your rebuttal testimony?		
16	А.	The purpose of my rebuttal testimony is to respond to the testimony of		
17	Missouri-Ame	Missouri-American Water Company (MAWC) witnesses Kevin Dunn and Greg Roach		
18	regarding customer usage.			
19	Q.	Will you be filing rebuttal testimony on rate design as well?		
20	А.	Yes. In the rate design rebuttal testimony due to be filed on February 19, 2016,		
21	I will address	rate design, single-tariff pricing vs. district-specific pricing, and MAWC's		
22	proposed revenue stabilization mechanism.			
23	Q.	What customer usage issue will you be addressing?		

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

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Q. Why is customer usage an issue?

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

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

Q. Please explain.

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

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Q. How is the customer charge calculated?

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

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Q.

How is the commodity charge calculated?

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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?			

Staff is aware that customer behavior has changed over the past 20 - 30 years. 1 Α. 2 More consumers are purchasing water-efficient appliances, showerheads, low-flow toilets, and other water-saving devices. Newer homes are being purchased with more efficient 3 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?

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

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Q.

Why is focusing on recent usage patterns important?

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

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1	Q.	Has any other party to this rate case filed testimony regarding normalized		
2	customer usage?			
3	А.	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	А.	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	А.	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	А.	Yes.		

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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In the Matter of Missouri-American Water Company's Request for Authority to Implement a General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas

Case No. WR-2015-0301

AFFIDAVIT OF JAMES A. BUSCH

STATE OF MISSOURI)	
)	SS.
COUNTY OF COLE)	

COMES NOW JAMES A. BUSCH and on his 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.

MES A. BUSCH

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 $\cancel{10^{-44}}$ day of February, 2016.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 12, 2016 Commission Expires: December 12, 2016 Commission Number: 12412070

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