

Exhibit No.: 17
Issues: Cost Allocation/Rate Design
Witness: Constance E. Heppenstall
Exhibit Type: Surrebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2017-0285
SR-2017-0286
Date: February 9, 2018

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2017-0285
CASE NO. SR-2017-0286**

**SURREBUTTAL TESTIMONY
OF
CONSTANCE E. HEPPENSTALL
ON BEHALF OF
MISSOURI-AMERICAN WATER COMPANY**

MAWC, Exhibit No. 17
Date 3-7-18 Reporter A.F.
File No. WR-2017-0285

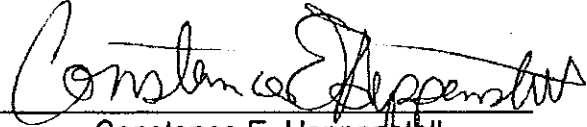
Exhibit 17
WR-2017-0285
Surrebuttal Testimony of Constance E.
Heppenstall

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-2017-0285 CASE NO. SR-2017-0286
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AFFIDAVIT OF CONSTANCE E. HEPPENSTALL

Constance E. Heppenstall, being first duly sworn, deposes and says that she is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Constance E. Heppenstall"; that said testimony was prepared by her and/or under her direction and supervision; that if inquiries were made as to the facts in said testimony, she would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of her knowledge.



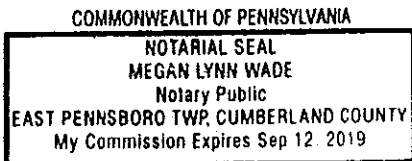
Constance E. Heppenstall

Commonwealth of Pennsylvania
County of Cumberland
SUBSCRIBED and sworn to
Before me this 7th day of February 2018.



Notary Public

My commission expires: Sep. 12, 2019



**SURREBUTTAL TESTIMONY
CONSTANCE E. HEPPENSTALL
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2017-0285
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SURREBUTTAL TESTIMONY
CONSTANCE E. HEPPENSTALL

I. INTRODUCTION

1
2 **Q. Please state your name and address.**

3 A. My name is Constance E. Heppenstall. My business address is 1010 Adams Avenue,
4 Audubon, Pennsylvania.

5 **Q. Have you previously submitted testimony in this proceeding?**

6 A. Yes, I have submitted direct and rebuttal testimony in this proceeding on behalf of Missouri-
7 American Water Company (MAWC or Company).

II. OVERVIEW

8
9 **Q. What is the purpose of your surrebuttal testimony?**

10 A. I will address the rate design and cost of service issues included in the rebuttal testimonies
11 of Staff witness James A. Busch, Missouri Industrial Energy Consumers (MIEC) witness
12 Brian Collins, Office of the Public Counsel (OPC) witness Geoff Marke, Missouri
13 Department of Economic Development – Division of Energy (DE) witness Martin Hyman,
14 Cities of St. Joseph, Joplin, Jefferson City, Warrensburg, Missouri (Coalition Cities) witness
15 Michael J. McGarry, Sr. and Andrew County PSWD No. 1 and No. 2 (Water Districts)
16 Witness Donald Johnstone.

III. WATER RATE DESIGN – CUSTOMER CHARGE

17
18 **Q. Please describe Staff Witness Busch’s position regarding the Company’s proposed**
19 **customer charges listed in his rebuttal testimony.**

20 A. Mr. Busch states that he understands the Company’s proposal to lower the 5/8-inch

1 monthly customer charge to \$10.00 and raise the quarterly customer charge to \$30.00 in
2 order to mitigate the increase to quarterly customers as these customers move to monthly
3 billing. He states that he has not ruled out this proposal.

4 **Q. OPC Witness Geoff Marke infers that the Company will receive a “windfall” by**
5 **reducing the monthly customer charge to \$10.00 and increasing the quarterly**
6 **customer charge to \$30.00. Do you agree?**

7 A. No. First, the Company’s proposal to increase the quarterly billed customer charge is
8 partially offset by its proposal to lower the monthly billed customer charge. Second, to the
9 extent there is a “net” revenue increase, it would then be offset by a reduction in volumetric
10 charges. In other words, the Company’s proposal to increase quarterly billed customer
11 charged is revenue neutral to the Company.

12 **Q. On the other hand, DE Witness Martin Hyman, in his rebuttal testimony,**
13 **recommends that the Company lower its 5/8-inch monthly customer charge to \$7.45,**
14 **one-third of the current quarterly 5/8-inch customer charge of \$22.35. Do you agree?**

15 A. No. The Company’s proposal to lower the monthly customer charge to \$10.00 produces a
16 charge that is already much lower than the cost of service study indicates (\$18.68 per
17 month for a 5/8-inch meter). (Heppenstall Dir., Schedule CEH-1, page II-35). Further
18 reducing this charge to \$7.45 is contrary to cost of service principles and is contrary to the
19 findings in the Commission’s order in File No. WR-2015-0301. On page 43 of that order,
20 the Commission states: “The Commission has an obligation to establish just and
21 reasonable rates that are fair to all concerned. It is fair for Missouri-American to be able to
22 recover customer-related costs through a customer charge. Anything else is unfair to not
23 only the company, but also to customers who use higher amounts of water and thus are

1 disadvantaged by the higher volumetric rates that must accompany a lower customer
2 charge.” Moreover, to the extent the customer charge is further reduced to \$7.45, and more
3 revenue requirement therefore must be recovered through volumetric rates, the Company is
4 exposed to greater risk of not recovering its authorized revenue in a declining residential
5 use environment. I recommend that the Commission reject Mr. Hyman’s proposal to lower
6 the Company’s monthly customer charge further to \$7.45.

7

8 **IV. WATER RATE DESIGN – INCLINING BLOCK RATES**

9 **Q. Did the Company provide in its rebuttal testimony further information regarding**
10 **Inclining Block Rates?**

11 A. Yes, the Company supplied a consolidated factor or bill frequency report for the residential
12 customers in Joplin and proposed a pilot program to test the impact of inclining block rates
13 on consumption patterns in that serving area.

14 **Q. Should this information satisfy DE Witness Hyman’s criticisms and concerns listed in**
15 **his rebuttal testimony?**

16 A. The information provided by this program should satisfy Mr. Hyman’s concern that
17 “neither party provides enough information for the Commission to implement an inclining
18 block rate in this case” (Hyman Reb., p. 10, lines 2-4). In addition, the Company objects
19 to Mr. Hyman’s request for additional items regarding an inclining block rate structure in
20 the next case. Mr. Hyman still insists that “inclining block rates only be implemented for
21 residential water customers if the resulting bill impacts are not significantly adverse”
22 (Hyman Reb., p. 15, lines 2-4). As stated in my rebuttal testimony, the purpose of
23 inclining block rates is to send a price signal to customers which would result in the

1 efficient use of water. Therefore, in order for inclining blocks to be successful, the bill
2 impacts on large users must be “adverse”.

3 **V. DISTRICT SPECIFIC PRICING VS. CONSOLIDATED PRICING**

4 **Q. Staff witness Busch lists as a major reason why Staff is against further consolidation**
5 **the “Constantly changing rate design does not allow for stability and could lead to**
6 **greater customer confusion...”. Do you agree?**

7 **A.** No, the rate design for each customer will change, regardless of whether the Commission
8 decides to maintain the current three-district approach or to implement consolidated
9 pricing. In each scenario, while the customer’s bill may or may not reflect a change to the
10 customer charge, it will reflect a change to the volumetric charge. There will be no
11 additional confusion to the customer whether the Commission decides to maintain the
12 current three-district approach or to implement consolidated pricing.

13 **Q. Water Districts Witness Donald Johnstone recommends a full implementation of**
14 **consolidation rates including the Sales for Resale rates or Rate B. Do you agree?**

15 **A.** I agree that for full consolidation, the Rate B volumetric rates should be equivalent across
16 all current districts. This full consolidation was not proposed in the original filing due to
17 the concept of “gradualism”. However, the Company is not opposed to full consolidation
18 of the Rate B volumetric rate as proposed by Mr. Johnstone.

19 **Q. In his rebuttal testimony, Coalition Cities witness Michael J. McGarry clarifies his**
20 **rate offset for the Coalition Cities. Does his clarification change the findings of your**
21 **rebuttal testimony?**

22 **A.** Yes and no. Yes, insofar as I misunderstood Mr. McGarry’s term “depreciated plant” and
23 assumed that to mean plant that is not fully depreciated. He has clarified that “depreciated

1 plant” means plant that is fully depreciated. Mr. McGarry appears to be asking for an offset
2 credit for the Coalition Cities for capital investments since 2000 that have been fully
3 depreciated. However, I continue to disagree with his offset as he assumes that only his
4 clients will have fully depreciated assets invested since 2000. In all probability, most of the
5 areas that MAWC serves would also have fully depreciated assets since 2000 and, using
6 Mr. McGarry’s reasoning, would also qualify for this “offset”. Mr. McGarry does not
7 provide any support as to why his clients alone would qualify for this offset, but instead
8 acknowledges that “the total of this credit would have to be added to the other systems’
9 rates to make it revenue neutral” (McGarry Reb., p. 12) – in other words, the “offset”
10 enjoyed by his clients would be subsidized by other customers. I recommend the
11 Commission reject Mr. McGarry’s “off-set” as an arbitrary and discriminatory rate device.

12 VI. COST OF SERVICE

13 **Q. MIEC Witness Brian Collins uses MIEC’s revised consolidated cost of service study**
14 **(developed by MIEC Witness Jessica York) to determine the overall revenue**
15 **requirement for the Rate J class even as he rejects a consolidated rate design. Is his**
16 **position consistent with his request to maintain the three district rate structure?**

17 **A.** No, Mr. Collins wants the benefit of a consolidated cost of service for his clients but
18 supports a three district approach for setting rates. He ignores the cost of service studies
19 based on Districts 1, 2 and 3 presented in response to his data request MIEC 02-002, which
20 I discussed and included in my rebuttal testimony (Heppenstall Reb., p. 14, lines 5-16),
21 which show that the revenue requirement for the Rate J customers increases by \$2,187,572
22 using the district specific cost of service studies (\$19,952,992 under the district specific
23 pricing cost of service minus \$17,765,420 under consolidated tariff pricing cost of service).

1 Mr. Collins cannot rely on the consolidated cost of service for revenue requirement for his
2 clients, while, at the same time, insisting on a three district or deconsolidated rate design,
3 which does not recover the district-specific cost of service.

4 **VII. RATE A: RESIDENTIAL AND NONRESIDENTIAL CLASSES**

5 **Q. Why has the Company proposed to break out Rate A customers into Residential and**
6 **Non-Residential classes?**

7 A. The breakout of Rate A customers between Residential and Non-Residential classes is
8 appropriate for cost allocation purposes, particularly due to the varying demand functions
9 by class. As stated on page 73 of the AWWA M1 Manual, Principles of Water Rates, Fees
10 and Charges, Seventh Edition (AWWA M1 Manual), "Demand patterns of various
11 customers differ, depending on their maximum-day and maximum-hour rates of demand
12 relative to average demands."

13 **Q. OPC witness Marke states in his rebuttal testimony that the Company's rate design**
14 **for Rate A residential and non-residential customers is discriminatory. Do you agree?**

15 A. No. OPC witness Marke is ignoring the results of the Cost of Service Study, Heppenstall
16 Dir., Schedule CEH-1, page II-2 when he suggests that the Company has not justified the
17 residential volumetric rate. Schedule A of Schedule CEH-1 clearly shows a cost of service
18 for the residential class of \$250,124,636, or 71.4% of the total, while revenue at present
19 rates of \$177,161,196 is only 67.8% of total revenue, a difference of 3.6%. The Company
20 uses rate design to move revenue from proposed rates toward the cost of service. Revenue
21 under proposed rates of \$242,660,412, or 69.3% of total revenue, is moving toward, but is
22 not equal to, the cost of service of 71.4%. As the customer charges are uniform by
23 customer class, the only rate that can be used to move proposed revenue toward the cost of

1 service is the residential volumetric rate. But even with a higher volumetric rate for the
2 residential class, proposed revenue falls short of cost of service. Proposed revenue from the
3 non-residential customer class makes up for that shortfall. In summary, the residential
4 volumetric rate does not discriminate against the residential class but reflects both cost of
5 service principles and the principle of gradualism.

6 **VIII. SEWER RATE DESIGN**

7 **Q. In his rebuttal testimony, Staff witness Busch stands by his sewer rate design. How**
8 **do you respond?**

9 A. For reasons stated in my rebuttal testimony, I believe that the Company's sewer rate
10 design, which consolidates the non-Arnold sewer customers into two rate areas and gives
11 rate relief to the sewer areas with higher rates, is superior to Staff's sewer rate design which
12 does not accomplish further consolidation nor give rate relief to the higher rate sewer areas.

13 **Q. Does this conclude your surrebuttal testimony?**

14 A. Yes, it does.