

Exhibit No.:
Issue:
Witness:
Type of Exhibit:
Sponsoring Party:

Rate Design
Donald E. Johnstone
Direct Testimony
AGP and
City of Parkville
WR-2007-0216
June 12, 2007

**Missouri American Water Company
WR-2007-0216**

**Direct Testimony of
Donald E. Johnstone**

on behalf of the
CITY OF PARKVILLE, MISSOURI
and
AG PROCESSING INC A COOPERATIVE

June 12, 2007



BEFORE THE
PUBLIC SERVICE COMMISSION OF MISSOURI

In the Matter of Missouri-American Water)
Company's request for Authority to Implement) Case No. WR-2007-0216
A General Rate Increase for Water Service)
Provided in Missouri Service Areas)

Affidavit of Donald E. Johnstone


State of Missouri)
)
County of Camden) SS

Donald E. Johnstone, being first duly sworn, on his oath states:

1. My name is Donald E. Johnstone. I am a consultant and President of Competitive Energy Dynamics, L. L. C. I reside at 384 Black Hawk Drive, Lake Ozark, MO 65049. I have been retained AG PROCESSING INC A COOPERATIVE and the City of Parkville in this proceeding.

2. Attached hereto and made a part hereof for all purposes are my rebuttal testimony and schedules in written form for introduction into evidence in the above captioned proceeding.

3. I hereby swear and affirm that my rebuttal testimony and schedules are true and correct and show the matters and things they purport to show.


Donald E. Johnstone

Subscribed and sworn before me this 12th day of June, 2007


Notary Public

Competitive Energy
DYNAMICS

| |
|--|
| <p style="text-align:center">CAROLYN NEPORADNY Notary Public - Notary Seal STATE OF MISSOURI Commissioned for Camden County My Commission Expires: August 30, 2009 Commission Number 05452654</p> |
|--|

Missouri American Water Company
WR-2007-0216

Direct Testimony of Donald E. Johnstone

TABLE OF CONTENTS

| | |
|------------------------------------|---|
| INTRODUCTION | 1 |
| THE MAWC RATE DESIGN PROPOSAL..... | 3 |
| RECOMMENDATION | 3 |

Missouri American Water Company

WR 2003-0500

Direct Testimony of Donald E. Johnstone

1 **INTRODUCTION**

2 **Q PLEASE STATE YOUR NAME AND ADDRESS.**

3 A Donald E. Johnstone. My address is 384 Black Hawk Drive, Lake Ozark, MO
4 65049.

5 **Q BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A I am President of Competitive Energy Dynamics, L. L. C. My qualifications and
7 experience are set forth in Schedule 1 attached to this testimony.

8 **Q ON WHOSE BEHALF ARE YOU APPEARING?**

9 A I am appearing on behalf of AG PROCESSING INC A COOPERATIVE ("AGP") and
10 the City of Parkville. The City of Parkville is a customer of the Missouri
11 American Water Company ("MAWC") in the Platte County District (aka Parkville
12 District) and AGP is a customer in the St. Joseph District.

13 **Q WHAT IS THE INTEREST OF YOUR CLIENTS IN THIS PROCEEDING?**

14 A My clients share an interest in appropriate rates for the services they receive
15 from MAWC. The City of Parkville also has an interest in appropriate rates for

1 services its citizens receive from MAWC and that the rates be appropriately
2 based on cost of service. They support the proposition that the reasonable cost
3 of providing services should be the fundamental starting point for the design of
4 rates. At the same time, they wish to avoid undue discrimination in rates -
5 which can arise when different rates are charged to customers that are
6 similarly situated. The point is that different rates are appropriate only to the
7 extent that there are differences in costs that are reflected in the rates.
8 Otherwise, it is important that similarly situated customers in the same district
9 pay the same rate.

10 AGP and the City of Parkville share a concern that the applicable rates
11 proposed by MAWC and the Staff of the Missouri Public Service Commission
12 (Staff) may vary substantially from an appropriate cost basis. In the Saint
13 Joseph District there is the added concern of rates that are highly
14 discriminatory. In this case MAWC has no cost-of-service study in support of its
15 proposed rates. Also, my clients are quite concerned with the use of the
16 recently created rate classes (i.e. Residential, Commercial, Industrial, Public
17 Authority and Sales for Resale). First, the tariff does not define what it takes
18 to be in one of these classes. More importantly, there is no MAWC cost study in
19 this case, and in prior studies the statistical data for the MAWC districts that
20 would be necessary to support a reliable study result either did not exist or was
21 not available.

22 Silence on other issues and the testimonies of other parties does not

1 indicate either support or acquiescence to any other particular proposal and
2 my clients reserve the right to assert additional positions at appropriate times
3 in this proceeding.

4 **THE MAWC RATE DESIGN PROPOSAL**

5 Q PLEASE SUMMARIZE THE RATE DESIGN PROPOSAL OF MAWC FOR THE ST.
6 JOSEPH AND PLATTE COUNTY DISTRICTS.

7 A MAWC proposes a continuation of the existing structures for the Saint Joseph
8 District and the Platte County District and the same percentage increase for all
9 districts. This means that class differentiated rates are again proposed for the
10 Saint Joseph District. Also, there is a fundamental problem in that neither the
11 present nor the proposed tariff states definitions for what it takes to belong to
12 one or another of the rate classes.

13
14 **RECOMMENDATION**

15 Q DOES AGP OPPOSE THE CONTINUED USE OF THE RESIDENTIAL, COMMERCIAL,
16 INDUSTRIAL, PUBLIC AUTHORITY, AND SALES FOR RESALE CUSTOMER
17 CLASSES?

18 A Yes, unless there is a proper demonstration of need. The principle question is
19 really whether there are measured differences in usage characteristics that in
20 turn create a need for distinct rates. If measured differences do exist then
21 there are additional questions: 1) are there homogeneous classes that can be

1 defined on the basis of load and usage characteristics; and 2) do the
2 differences lead to different costs of service and different rates. My clients
3 believe there should be no class distinctions unless these conditions exist in
4 reality for these districts.

5 **Q DOES THE CITY OF PARKVILLE OPPOSE THE CONTINUED USE OF THE**
6 **RESIDENTIAL, COMMERCIAL, INDUSTRIAL, PUBLIC AUTHORITY, AND SALES**
7 **FOR RESALE CUSTOMER CLASSES?**

8 **A** In the Parkville district the rates were rationalized in the last rate case and set
9 equal for the customer classes. Therefore, although the tariff sets forth
10 separate usage charges for each class, in reality the rates are identical for all
11 practical purposes. That said, it would be good to simplify the tariff sheets to
12 include only the single rate that exists.

13 **Q SHOULD THE RELATIVE CHARGES WITHIN THE DISTRICTS AND THE RATE**
14 **CLASSES BE CHANGED IN THIS PROCEEDING?**

15 **A** Yes. To lock in the currently existing rate design with a pro rata approach to
16 any rate change would be a mistake for the Saint Joseph District. It would not
17 resolve the undue discrimination that exists in the Saint Joseph District rate
18 structure.

19 **Q WHAT CHANGES DO YOU RECOMMEND?**

20 **A** First, the uniform charges to customers based on meter and size of service
21 should be continued. As to the usage charges, I recommend a rationalization of

1 the Saint Joseph District rates to resolve the problem of undue discrimination.
2 The result will be uniform usage rates for the district.

3 **Q WHAT DO YOU MEAN WHEN YOU SPEAK OF RATIONALIZATION OF THE**
4 **RATES?**

5 **A** In the absence of a properly done cost-of-service it is nevertheless possible to
6 resolve discrimination problems and to establish a logical relationship among
7 the various elements of the rates.

8 **Q HOW SHOULD THE USAGE CHARGES FOR THE SAINT JOSEPH DISTRICT BE**
9 **CHANGED?**

10 **A** I used a two step process. First I computed the weighted average of the rates
11 charged for each usage block. This resulted in a single set of usage rates for all
12 classes with an effect of decreasing the revenues derived from the Industrial
13 and Sales for Resale classes and increasing the revenues from the other classes.
14 Assuming that Triumph is receiving service under a Commission approved
15 contract, I did not propose modification to that rate at this time, although I
16 note a usage rate of \$.453 per 1000 gallons is substantially less than even the
17 tail blocks of the other rates.

18 As a second step I adjusted the third block to the present level of the
19 industrial rate third block and I adjusted the tail block to a level 5.1% less than
20 the present industrial rate tail block. In order to maintain the same revenues I
21 adjusted the charges in the first two blocks to maintain present revenue level.

1 Q WHAT RATES DO YOU RECOMMEND FOR THE SAINT JOSEPH DISTRICT?

2 A I recommend the following rates based on the revenue level of present rates:

| Saint Joseph District Recommended Volumetric Rates Based on Rate Rationalization | |
|--|--|
| <u>Volumetric Block</u> | <u>Recommended Rates</u> (per 1000 gallons) |
| First | \$3.3239 |
| Second | \$2.7317 |
| Third | \$1.7151 |
| Tail | \$1.3296 |

3 Q WHAT IS THE IMPACT OF YOUR RATE RECOMMENDATION ON THE REVENUES
4 OF THE CUSTOMER CLASSES?

5 A First, note the lack of clear definition of the customer classes in the present
6 tariff. With that caveat, the revenues derived from the “classes” on an overall
7 revenue neutral basis will change. They will increase 7.5% for the Residential
8 class, increase 5.5% for the Commercial class, decrease 7.4% for the Industrial
9 class, no change for Triumph, increase by 1.2% for Other Public Authorities,
10 and decrease by 21.7% for the Sales for Resale class.

1 **Q DO YOU RECOMMENDATION ELIMINATION OF THE CUSTOMER CLASSES?**

2 **A Yes.** Since the rates will then be uniform among the respective classes in both
3 the Platte County and St. Joseph Districts, the Class distinctions may be
4 removed for these districts.

5 **Q DO YOU HAVE ANY ALTERNATIVE RECOMMENDATIONS?**

6 **A Yes.** In consideration of the approval of the volumetric rate element for
7 Triumph at \$.453 per 1000 gallons, MAWC, the Staff, and the Commission must
8 have determined that the variable cost of water is no more than \$.453. As
9 such I can also recommend a rate design in which the volumetric charge is set
10 at the variable cost level (\$.453 in the Saint Joseph District and an analogous
11 level in Platte County District) for all customers and collect the remainder of
12 the costs through cost based fixed charges. This approach is often
13 characterized as a straight fixed-variable rate design. It is an accepted cost-
14 based approach to utility rates that will eliminate the discrimination that arises
15 when rates are not cost based. The straight fixed-variable approach to
16 residential rates was recently proposed by Staff and approved by the
17 Commission in an Atmos gas rate case.

18 **Q DOES THIS CONCLUDE YOUR TESTIMONY?**

19 **A Yes** it does.

Qualifications of Donald E. Johnstone

Q PLEASE STATE YOUR NAME AND ADDRESS.

A Donald E. Johnstone. My address is 19 Black Hawk Drive, Lake Ozark, MO 65049.

Q PLEASE STATE YOUR OCCUPATION.

A I am President of Competitive Energy Dynamics, L.L.C. and a consultant in the field of public utility regulation.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A In 1968, I received a Bachelor of Science Degree in Electrical Engineering from the University of Missouri at Rolla. After graduation, I worked in the customer engineering division of a computer manufacturer. From 1969 to 1973, I was an officer in the Air Force, where most of my work was related to the Aircraft Structural Integrity Program in the areas of data processing, data base design and economic cost analysis. Also in 1973, I received a Master of Business Administration Degree from Oklahoma City University.

From 1973 through 1981, I was employed by a large Midwestern utility and worked in the Power Operations and Corporate Planning Functions. While in the Power Operations Function, I had assignments relating to the peak demand and net output forecasts and load behavior studies which included such factors as weather, conservation and seasonality. I also analyzed the cost of

Schedule 1
Page 1

Competitive Energy
DYNAMICS

replacement energy associated with forced outages of generation facilities. In the Corporate Planning Function, my assignments included developmental work on a generation expansion planning program and work on the peak demand and sales forecasts. From 1977 through 1981, I was Supervisor of the Load Forecasting Group where my responsibilities included the Company's sales and peak demand forecasts and the weather normalization of sales.

In 1981, I began consulting, and in 2000, I created the firm Competitive Energy Dynamics, L.L.C. As a part of my twenty years of consulting practice, I have participated in the analysis of various electric, gas, water, and sewer utility matters, including the analysis and preparation of cost-of-service studies and rate analyses. In addition to general rate cases, I have participated in electric fuel and gas cost reviews and planning proceedings, policy proceedings, market price surveys, generation capacity evaluations, and assorted matters related to the restructuring of the electric and gas industries. I have also assisted companies seeking locations for new manufacturing facilities.

I have testified before the state regulatory commissions of Delaware, Hawaii, Illinois, Iowa, Kansas, Massachusetts, Missouri, Montana, New Hampshire, Ohio, Pennsylvania, Tennessee, Virginia and West Virginia, and the Rate Commission of the Metropolitan St. Louis Sewer District.