

Exhibit No.:
Issue: Rate Design
Witness: Donald E. Johnstone
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: City of Riverside
Missouri Gaming Co.
Case Number: WR-2008-0311
Date Prepared: October 16, 2008

Missouri American Water Company

WR-2008-0311

Surrebuttal Testimony of

Donald E. Johnstone

Before the
Missouri Public Service Commission

On behalf of

City of Riverside
Missouri Gaming Company

October 16, 2008



Missouri American Water Company

WR-2008-0311

Surrebuttal Testimony of Donald E. Johnstone

Q PLEASE STATE YOUR NAME AND ADDRESS.

A Donald E. Johnstone. My address is 384 Blackhawk Drive, Lake Ozark, MO 65049.

Q ON WHOSE BEHALF ARE YOU APPEARING FOR THE PURPOSES OF THIS SURREBUTTAL TESTIMONY?

A I am appearing for the purposes of this testimony on behalf of intervenors City of Riverside and Missouri Gaming Company, with separate testimony filed on behalf of AGP.

Q PLEASE SUMMARIZE YOUR TESTIMONY.

A My testimony may be summarized as follows:

- Staff fails to note that they are proposing a major change from a rate design already found to be fair and reasonable by the Commission and indeed the product of a stipulation submitted for the purposes of the prior rate case, WR-2007-0216.

- 1 • Staff makes no showing that its proposed rate design changes better reflect the
2 cost of service within the customer classes.
- 3 • The Staff class cost-of-service study, like those of MAWC and OPC continues to rely
4 on assumed class usage characteristics which have not been shown to be
5 representative or appropriate for the Parkville District.
- 6 • The OPC class cost-of-service study continues to rely on assumed class usage
7 characteristics that are not shown to be representative or appropriate for the
8 Parkville District.
- 9 • Mr. Ileo, on behalf of the City of Joplin, appears to be making rate design
10 recommendations for the Parkville District, in which he presumably has no
11 interest. To the extent that Mr. Ileo proposes changes to the design of the rates
12 for the Parkville District, the proposal should be rejected for lack of a vested
13 interest, besides the fact that his theories and explanations are deficient.
- 14 • I understand Mr. Ileo to be requesting leave to file a class cost-of-service study at
15 the date specified for true-up testimony. This is troublesome and will be opposed
16 by intervenors City of Riverside and Missouri Gaming Company in part because
17 there will be inadequate opportunity to respond, but also for other reasons
18 including but not limited to the very practical reason that the out of time filing
19 would add substantial cost and complexity to a case that is already complex simply
20 due to the numerous districts for which parties may investigate a multitude of
21 interests. If Mr. Ileo's request is granted it makes participation more difficult and
22 expensive for intervenors City of Riverside and Missouri Gaming Company, and
23 presumably other parties as well. To the extent that Mr. Ileo proposes changes to
24 the design of the rates for the Parkville District, his proposal should be rejected.

- Any class cost-of-service study prepared by Mr. Ileo would necessarily rely on assumed class usage characteristics that cannot be shown to be representative or appropriate for the Parkville District.

Response to Staff Rebuttal Testimony

Q IS MR. RUSSO CORRECT IN HIS SUGGESTION THAT YOU SUPPORT A UNIFORM CUSTOMER CHARGE?

A No. In my direct testimony I simply support MAWC's proposed customer charge as applied to the St. Joseph District. I do not take a position as to the customer charge for other districts. In fact, in rebuttal testimony I supported an equal percentage adjustment as an approach that preserves the current rate design for the Parkville District.

Q IS THE STAFF'S PROPOSED RATE DESIGN A MAJOR DEPARTURE FROM THE PRESENT RATE DESIGN?

A Yes, it is. Staff offers no studies and no explanation for the major redesign it proposes for the Parkville District.

Q DOES STAFF CRITICIZE THE DECLINING BLOCK APPROACH FOR THE FIRST TIME IN REBUTTAL TESTIMONY?

A Yes. In its criticism Staff ignores an important benefit of declining block rates. Among other things, the declining block structure allows the rates to better track cost when all customer related costs are not fully collected in a customer charge.

Customers sometimes find a high customer charge offensive because it appears to be a charge "for nothing." In the case of MAWC no water is provided as a part of the meter charges (the "customer charge"). Understandably, it can appear to customers that are not steeped in rate theory that anything beyond a nominal

1 customer charge is unfair. Such customers are unlikely to understand that a below
2 cost customer charge results in some of their costs being paid by other customers.
3 Thus, from the perspective of the public's understanding and acceptance of the rates,
4 a declining block approach can be beneficial because it can be used to maintain a rate
5 design that is reasonably cost based while avoiding the problems of a higher customer
6 charge.

7 It is unreasonable to eliminate the declining blocks without a substantial
8 increase in the customer charges to reflect the full measure of customer related costs,
9 and for that reason the Staff criticism of existing declining block structure misses the
10 mark and should be rejected along with the Staff rate design proposal.

11 In summary, as a practical matter, a higher charge for the first block in a
12 declining block structure is useful for mitigating the perception problem for those
13 customers that do not understand or care about rate design theory that would support
14 a higher cost based customer charge while at the same time doing a fair job of
15 collecting costs from the customers that cause the costs.

16 Mr. Ileo's Rate Design Proposals On Behalf Of The City of Joplin

17 Q IS MR. ILEO LIMITING HIS COMMENTS AND RECOMMENDATIONS TO RATES FOR THE
18 JOPLIN DISTRICT?

19 A It does not appear so.

20 Q HAS MR. ILEO SUBMITTED A STUDY THAT ALLOCATES COSTS AMONG THE DISTRICTS?

21 A No.

22 Q HAS MR. ILEO SUBMITTED A CLASS COST-OF-SERVICE STUDY FOR JOPLIN OR ANY
23 OTHER DISTRICT?

24 A No.

1 Q HAS MR. ILEO DESIGNED RATES FOR JOPLIN OR ANY OTHER DISTRICT?

2 A No. While Mr. Ileo offers opinions with which I disagree, I find no rates for analysis
3 and I do not understand how my client would have a fair opportunity to analyze the
4 impact and respond to rates that have not been offered into testimony by this stage of
5 the proceeding.

6 Q WOULD IT BE APPROPRIATE AND FAIR FOR THE CITY OF JOPLIN TO WORK ON A
7 DIFFERENT SCHEDULE THAN THE COMMISSION HAS SET FOR OTHER PARTIES IN
8 ORDER TO SUBMIT DATA AND STUDIES LATER IN THIS PROCEEDING?

9 A The appropriateness, or lack thereof, of such an approach is a matter to be addressed
10 in due course if it arises. Suffice to say at this point that it is certainly a concern and
11 my clients are in no way acquiescing to the suggestion of Mr. Ileo that true-up
12 testimony might be used by him for the purposes of introducing district and class
13 specific cost studies and specific rate proposals for the first time.

14 Response to OPC Testimony

15 Q HAVE YOU REVIEWED THE REBUTTAL TESTIMONY SUBMITTED BY MS. MEISENHEIMER
16 ON BEHALF OF THE OFFICE OF PUBLIC COUNSEL (OPC)?

17 A Yes. Among other issues Ms. Meisenheimer addresses a revised class cost-of-service
18 study she has submitted. I will respond to her testimony regarding these issues.
19 Silence on other issues should not be viewed as either support or disagreement with
20 any particular position.

21 Q DOES THE CLASS COST-OF-SERVICE STUDY MS. MEISENHEIMER SUBMITTED WITH HER
22 REBUTTAL CONTINUE TO RELY ON USAGE CHARACTERISTICS FOR THE PARKVILLE
23 DISTRICT THAT HAVE NOT BEEN SHOWN TO BE APPROPRIATE FOR THE DISTRICT?

1 A Yes. There are no usage characteristics available for the state of Missouri as a whole
2 or for the Parkville District in particular. For this reason, among others, the value of
3 the study is limited.

4 Q DO YOU AGREE WITH MS. MEISENHEIMER'S ALTERNATIVE PROPOSAL TO DECOUPLE
5 THE RATES FOR THE VARIOUS CLASSES IN THE PARKVILLE DISTRICT?

6 A No. As explained above the OPC class cost-of-service study is built on unchecked
7 assumptions regarding the usage characteristics of the customer classes. OPC, Staff,
8 and MAWC disagree about these assumptions. I further disagree because there is a
9 lack of data and because there has been no apparent effort to study whether the rate
10 classes are even appropriate for the purposes of rate design. Once there is data,
11 there can then be a more useful exploration of the differences in the approach to class
12 cost-of-service studies among the parties.

13 Response to MAWC - Customer Class Definitions and Usage Characteristics

14 Q HAS MAWC ADDRESSED CUSTOMER CLASS DEFINITIONS IN REBUTTAL TESTIMONY?

15 A Yes, the matter is addressed by Mr. Herbert and Mr. Grubb.

16 Q WHAT IS THE SOURCE OF THE DEFINITIONS PROFFERED BY MAWC?

17 A Mr. Herbert states that the company uses the AWWA standard and attaches several
18 pages from the AWWA manual M1. However, in the pages he attached, there is no
19 definition for the public authorities class. Presumably that definition is the creation
20 of either MAWC or Mr. Herbert.

21 Q DID MR. HERBERT REBUT YOUR TESTIMONY AS TO THE IMPORTANCE OF THE
22 DEFINITIONS IF THEY ARE TO BE USED FOR RATE DESIGN PURPOSES?

1 A No. As I stated in my earlier testimony, in order for a rate design to properly reflect
2 the cost for any customer class the usage characteristics of the customers within the
3 class must be homogeneous. From the perspective of rate design, rate classes need to
4 group customers with homogeneous usage characteristics.

5 Q DOES MR. HERBERT ARGUE THAT CUSTOMERS WITH SIMILAR USAGE
6 CHARACTERISTICS SHOULD PAY A DIFFERENT RATE SIMPLY BECAUSE OF THEIR
7 CUSTOMER CLASSIFICATION?

8 A No, not that I have seen. In the AWWA material attached to his testimony it is stated:
9 "... the cost of providing service can reasonably be determined for groups of classes of
10 customers that have similar water-use characteristics ..." and it goes on to state "In
11 establishing customer classes, water utilities consider service characteristics, demand
12 patterns ..."

13 Q HAS MAWC PROVIDED ANY STUDIES OF THE PARKVILLE DISTRICT TO ESTABLISH THE
14 DEMAND PATTERNS/USAGE CHARACTERISTICS OF THE CLASSES AND THAT THE
15 CUSTOMERS WITHIN THE CLASSES HAVE HOMOGENEOUS DEMAND PATTERNS/USAGE
16 CHARACTERISTICS?

17 A None that I have seen. Moreover, based on a preliminary review of monthly customer
18 usage data there is reason to continue the present uniform declining block structure
19 and to reject the approach proposed by Staff.

20 Q DOES THIS CONCLUDE YOUR TESTIMONY?

21 A Yes, it does.

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

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)

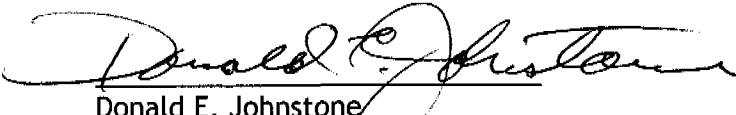
Case No. WR-2008-0311

Affidavit of Donald E. Johnstone

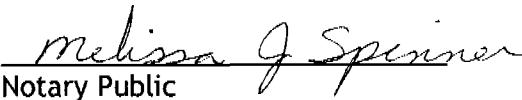
State of Missouri)
County of COLE) ss.

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 by intervenors City of Riverside and Missouri Gaming Company.
2. I prepared the above surrebuttal testimony for filing this day in the above-captioned matter on behalf of City of Riverside and Missouri Gaming Company.
3. I hereby swear and affirm that the aforesaid written surrebuttal testimony is true and accurate to the best of my present knowledge, information and belief.


Donald E. Johnstone

Subscribed and sworn to before me on this 16th day of October, 2008.


Notary Public

My commission expires:



MELISSA J. SPINNER
My Commission Expires
May 2, 2012
Cole County
Commission #08381701