Exhibit No.:	
Issue:	Rate Design
Witness:	Donald Johnstone
Type of Exhibit:	Direct Testimony
Sponsoring Party:	AGP
Case Number:	WR-2011-0337
Date Prepared:	December 12, 2011

Missouri American Water Company
WR-2011-0337

Direct Testimony of

Donald E. Johnstone

on behalf of

AG PROCESSING INC, A COOPERATIVE

December 12, 2011

Competitive Energy
DYNAMICS

BEFORE THE

PUBLIC SERVICE COMMISSION OF MISSOURI

In the Matter of Missouri-American Water Company's Request for Authority to Implement a General Rate Increase for Water Service Provided in Missouri Service Areas	)))))	WR-2011-0337

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 by AG PROCESSING INC, A COOPERATIVE.

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

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

Donald E Johnstone

Donald E. Johnstone

Subscribed and sworn to this 12th day of December, 2011.

CYNTHIA E. BALLIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Camden County
My Commission Expires: July 18, 2012
Commission Number: 08379951

Cynthia E Ballin

Notary Public

Missouri American Water Company

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Direct Testimony of Donald E. Johnstone

INTRODUCTION

Q PLEASE STATE YOUR NAME AND ADDRESS.

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

Q BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

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

Q ON WHOSE BEHALF ARE YOU APPEARING?

A I am appearing on behalf of AG PROCESSING INC A COOPERATIVE ("AGP"). AGP is an industrial water customer of MAWC located in the St. Joseph District and served under industrial rates presently approved for the district.

Q PLEASE PROVIDE AN OVERVIEW OF YOUR TESTIMONY.

A The rates for MAWC water service in each district should reflect the cost of the water services provided in each district for each rate class. On its face this is a simple matter of equity. No doubt, each customer expects to pay for their own service, and not for the service of neighbors or customers that reside somewhere else in the state. Water rates that reflect cost are also important as a matter of efficiency since higher cost usages will be discouraged by the prices which reflect the higher costs while the relative advantage of lower cost service is also preserved in the rates charged. Certainly relatively low water rates that reflect the reasonable cost of service are important to my clients and to an environment in the St. Joseph District that supports a continuing manufacturing base and job creation.

I am advised by Mr. Conrad, attorney for these customers, that Missouri law supports this approach to water rates. To this end, the comments and brief of AGP that were filed in SW-2011-0103 are attached for the convenience of the Commission. Not being an attorney, I offer this document simply as a courtesy preview of the legal arguments that are to come in due course.

Q PLEASE SUMMARIZE THE MAWC PROPOSAL FOR WATER RATES.

In contrast to cost-based rates, MAWC has instead proposed a consolidated tariff for water service across its geographically diverse districts, each with its own water supplies, storage, and delivery systems. It almost goes without saying that costs vary markedly based on considerations such as the sources of water, the types of treatment that are needed, and the ground conditions that affect the cost of the transmission and delivery systems.

Under the proposed tariff, total water revenues would increase by 18% (a $42.9 million combined increase for water and sewer). The proposed consolidated tariff would apply to all water districts instead of the present separate tariffs for each district. The MAWC proposal violates the simple proposition that customers in each district should pay their respective costs and that they should neither expect to receive subsidies that would provide a localized preference nor expect to provide subsidies to others that create a localized disadvantage.

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q GIVEN THE MAWC PROPOSED WATER RATES AND THE PROBLEMS YOU HAVE BRIEFLY

DESCRIBED, WOULD YOU PLEASE PROVIDE A SUMMARY OF YOUR TESTIMONY AND RECOMMENDATIONS?

A

- Under present rates, customers in the St. Joseph District pay the lowest average cost per gallon of water at 3.5 cents per one thousand gallons. This favorable position was not always so and came with some pain along the way in the form of very large increases to pay for treatment facilities constructed in the district some years ago. The customers have paid their way. My clients will oppose any subsidy from the St. Joseph District to other districts.

- Reasonable and cost-based rates are essential for my clients, all of whom operate in competitive markets. The industrial rate in the St. Joseph District historically bore the brunt of both the large increase due to a new treatment plant and a large increase due to rate design perturbation that took industrial water rates away from a cost basis for a number of years. However the industrial rate level is now back in line with costs and the second lowest after industrial rate J in the St. Louis district. My clients oppose any subsidies to other customer classes that would result in any increase in the industrial rates for the St. Joseph District.

- Consistent with cost of service principles, the increase to the industrial rate in the St. Joseph District should be at or very near the average increase for the St. Joseph District. This is supported by a class cost-of-service study for the St. Joseph District that was prepared by MAWC.

- Cost-based rates should be preserved both within and among the districts. This is sometimes referred to as district-specific pricing.

- The smaller districts, as a matter of fact, have higher rates due to a higher average unit cost to provide service. These districts need to continue to pay reasonable rates sufficient to cover their costs.

- While a consolidated tariff would be administrative convenience, there is no demonstrated equity, economic efficiency, or justice in charging the same water rates to customers across far reaching districts, each having their own circumstances. There are a plethora of differences in the cost of living and the cost of doing business across the widely dispersed districts.

- So long as the district-specific cost-based rates are continued for the larger districts, explicitly including the St. Joseph District, my clients are not opposed to just and reasonable rates that may be created by consolidating some or all of the other districts that have similar costs and rates. The key is to design rates that are reasonable for all of the customers that would be a part of any limited rate consolidation. I leave specific recommendations for those that have a direct interest in the result.

- MAWC has acquired numerous additional water districts since the last case, each with their own rates. Looking forward, MAWC has been unable to provide any projected information on the future of operating expenses or capital expenditure requirements for the nine (9) water districts acquired since December 2010. Given the lack of information it is not possible to make judgments about the equitable impacts over time of consolidating any of these districts for rate purposes in this proceeding.

- MAWC expansion by acquisitions is apparently a part of the MAWC's pursuit of growth. This is a benefit to shareholders. It is entirely inappropriate to have existing customers subsidize that growth by paying costs properly ascribed to the acquired districts. To do so would thwart the protections for existing customers that have traditionally been a part of Missouri water service regulation, including, among other things, main extension policies. Simply put, cost-based district-specific prices should be maintained to avoid the issue.

COMPARATIVE ANALYSIS OF THE DISTRICTS

Q HAVE YOU PREPARED AN ANALYSIS OF THE 19 WATER DISTRICTS TO FACILITATE A COMPARISON OF THE RELATIVE SIZE AND RATE LEVELS AMONG THE DISTRICTS?

A Yes. My intent is to illustrate several important differences among the districts as reflected in size and rate levels. My data sources are the Staff accounting exhibits, workpapers and the MAWC responses to data requests available at this time.

Q WHAT ARE THE DIFFERENCES IN RATE BASE AMONG THE DISTRICTS?

A Rate Base is the net investment upon which MAWC is authorized to earn a return. Schedule 2 presents a summary of present rate revenue and rate base for each district (per Staff revenue direct testimony workpapers). First, I separated the nine most recently acquired districts from other ten districts. The ten districts are sorted in descending order of rate base from the largest, St. Louis at $555 million, to the smallest, Maplewood - Lake Carmel with a rate base of $249 thousand. The size ratio is 1000 to 1. The smallest rate base, that for Maplewood - Lake Carmel, is 0.05% of the St. Louis Metro rate base. The Joseph District rate base is second largest rate base at $80 million.

In Schedule 2 the nine newly acquired districts appear in a second group that is also sorted from the largest to the smallest rate base. Among the newly acquired districts the Roark rate base is the largest at $1.1 million and Rankin Acres is smallest at $41 thousand. All are relatively small. Collectively they represent 0.3% of the total MAWC water rate base.

Q HOW DO THE PRESENT RATES COMPARE AMONG THE DISTRICTS?

A To assess the relative rate levels I computed the average rate revenue per 1000 gallons for each district. There is naturally some variation because of differences in the mix of customers and average use per customer, so these are factors to consider when reviewing the rates.

Schedule 3 provides the average rate revenue per 1000 gallons for each district on page 1 and the averages for the residential and industrial customer classes on the following pages. The St. Louis Metro and St. Joseph District average per unit rate revenues are nearly equivalent at 3.6 cents and 3.5 cents respectively. Among the larger districts Joplin is next lowest at 4.4 cents.

Schedule 3 page 2 provides the average residential rate revenue per 1000 gallons for each district. Again there is a wide range from St. Louis Metro on the low end and Brunswick on the high end.

Finally, Schedule 3 page 3 provides the average industrial rate revenue per 1000 gallons. St. Louis Metro is the lowest at 1.5 cents.

Q CAN YOU DRAW ANY CONCLUSIONS FROM THE RATE BASE AND REVENUE DATA OF SCHEDULES 2 AND 3?

A Yes. First, there is a very wide range in the sizes and rates among the districts. St.

Louis Metro District is the largest and has the lowest rates. The St. Joseph District is next largest and also has relatively low rates.

There is some apparent correlation between size, the types of customers served, and price, but no single factor explains all of the differences among the districts. Some of the smallest districts have the highest rates, but other small districts enjoy relatively low rates. Also, in some instances there is no usage data and it appears that usage is not metered. This is not illogical if the district is small and has a homogeneous customer base. This saves the cost of meter investment as well as the associated operation and maintenance costs.

Second, the differences among the districts are not arbitrary, but rest on documented and audited costs, revenues, and usages of the districts.

Third, given the wide differences in audited costs, usages, and average rate levels there is reason to be highly skeptical of any tariff consolidation proposal that does not address these large, inherent and well documented differences. Rather, it is essential that the differences be embraced and dealt with in a reasonable fashion if there is to be any rate consolidation.

Q LOOKING TO THE FUTURE, ARE THERE DIFFERENCES IN THE CAPITAL EXPANSION PLANS AMONG THE DISTRICTS?

A Yes, MAWC provided current capital plans and projected investments forward through 2015 for certain of its districts along with the important qualification that plans for the later years are not approved this far in advance and are subject to change. The plans for projects of over $250,000 are indentified individually. This identification of large projects apparently works well for the larger districts, but does not identify specific projects that would have large impacts in the smaller districts, since those projects may well fall below the arbitrary size threshold for separate identification and tracking.

As shown on Schedule 4, through 2015, the largest currently identified investment plans in both absolute and relative terms are for the Jefferson City District. If these plans proceed there will be large rate increases that will impact rates in the district and certainly the comparison of Jefferson City cost levels and rates to those of other districts.

Q WAS MAWC ABLE TO PROVIDE ANY CAPITAL EXPENDITURE PLANS FOR THE NINE MOST RECENTLY ACQUIRED DISTRICTS?

A No. While the question was pursued several ways in data requests, I am left with the understanding that they have no plans or knowledge of capital investments that will be needed in these nine districts. One must ask why MAWC would buy systems without having any information on capital investments that will be needed, but nevertheless, based on answers provided to data requests (in an important sense a lack of answers) the systems appear to have been acquired with no such knowledge. If there were any business plans for the potential acquisitions, this important information was apparently never considered.

Q WHAT IS THE LEVEL OF INCREASE THAT IS JUSTIFIED FOR EACH WATER DISTRICT?

A Of course, that is to be the result of this general rate proceeding. Without prejudging matters before the Commission that may be contested, and without at this time taking a position in support or opposition of Staff's testimony, I have prepared a summary of the district-specific rate increases based on Staff's revenue direct testimony and workpapers. No doubt there will be responses to the testimony and changes along the way and I respectfully ask for permission to update as may become appropriate. With these caveats, Schedule 5 provides a summary of the rate increases that are needed in each districts based on Staff's revenue direct testimony and workpapers. Consistent with the Staff's typical presentation I have summarized the low, middle and high increase based on the range of Staff's recommended allowed return on equity for the company. Again, my use of the Staff results should not at this time be construed as support for any particular Staff position or result.

Q DO THE COST-BASED DISTRICT-SPECIFIC RESULTS MOVE IN A WAY THAT APPEARS TO MINIMIZE PRESENT VARIATIONS IN UNIT COSTS AMONG THE DISTRICTS?

A While there are wide variations, the St. Louis Metro district which presently has some of the lowest rates, would have the lowest (cost-based) increase in the range of 5.6% to 8.1%. The range for the St. Joseph District is above average - from 12.6% to 15.2% according to Staff. The increases for some of the smaller districts are much larger. For the Brunswick and Lakewood Manor districts, rates need to more than double to reflect the Staff revenue requirements for the districts.

LIMITATIONS ON DISTRICT RATES

Q COULD THE RATE INCREASES BE LIMITED FOR THE SMALLER HIGHER COST DISTRICTS OR SOME OF NEWLY ACQUIRED HIGHER COST DISTRICTS?

A Primarily, rates should reflect costs and any variations should be limited. Limited variations are sometime warranted for practical consideration, but that should not detract from the policy in support of cost-based rates for each district. Of course, one would expect some evidence of a practical necessity to vary from cost-based rates and essentially none has been offered.

Besides the practical considerations there can also be prudence issues that might apply. MAWC may bear the responsibility on prudence grounds given that it has a company policy of pursuing growth and has pursued the acquisitions consistent with that policy. To my knowledge there has been no agreement whatsoever that would suggest an obligation of existing MAWC customers to subsidize system growth through subsidization of any the high cost districts that have been acquired. Presumably the agreements between MAWC and the acquired systems were arms-length transaction that the parties found to be in their mutual interest. It is not appropriate for MAWC to now ask existing ratepayers to cover any extraordinary costs that exist or arise and to thereby directly subsidize either 1) the new ratepayers and/or 2), the corporate growth policy.

Q DID ANY REGULATORY BODY REQUIRE MAWC TO PURSUE THE WATER DISTRICT ACQUISITIONS?

A No. There is no indication of any such requirements.

Q DID ANY REGULATORY BODY MAKE PROMISES TO MAWC OF PROFITABILITY OF THE ACQUISITIONS?

A No. There is no indication that any such promises were made.

Q IS ANYONE OTHER THAN MAWC RESPONSIBLE AND AT RISK FOR THE PROFITABLE OPERATION OF THE ACQUIRED DISTRICTS?

A No. To the extent that the growth pursued by MAWC cannot be profitable because cost-based rates for the acquired systems cannot be found to be just and reasonable, MAWC alone should bear the pain. MAWC has willingly pursued growth as a corporate policy and if that turns out to have been an unwise choice, it is MAWC's responsibility.

Any other result undercuts the fundamental responsibility for results that is essential if free enterprise is to function efficiently and in the public interest. It is certainly not reasonable to expect all customers or any subset of customers, new or existing to automatically guarantee MAWC's earnings by subsidizing growth that is being pursued to further a corporate growth policy. This would create a perverse incentive to expand in an irresponsible manner that would harm every customer that provided a subsidy.

Q WOULD A RATE SUBSIDY PAID BY SOME CUSTOMERS IN OTHER DISTRICTS BE BENEFICIAL TO THE CUSTOMERS RECEIVING THE SUBSIDY?

A Yes, to state the obvious, it would be helpful and provide an advantage to the location receiving the subsidy while it would be hurtful and create a disadvantage to the locations paying the subsidy. In my opinion any such manufactured advantages are quite likely to be undue to the extent that they rise to material advantage or disadvantage.

Q HAVE PAST RATE CASES BEEN SETTLED?

A Yes. It is inappropriate to delve into any of the underlying negotiations, but the result to a large extent speaks for itself. Some small districts benefit from rates that on their face are below cost. This result was agreeable to the parties and approved by the Commission. By the explicit terms of the settlement one cannot read a lot into a settlement, but I believe it is reasonable to conclude that the parties did not believe that the limited variations did not create an illegal undue preference, advantage, or disadvantage. The result was and is rates that are presumed to be just reasonable.

Q WILL IT AGAIN BE POSSIBLE TO REACH A RESULT THAT ACCOMMODATES SOME OF THE MAWC'S PROBLEMS WITH THEIR SMALLER DISTRICTS?

A Only time will tell. The past suggests that very limited subsidies can be accommodated. That is tremendously different from the consolidated tariff proposal that would create large subsidizes either or to or from each district and remove any and all responsibility for the negative implications of its growth policy from MAWC.

This said, it may be possible in a settlement context to achieve a measure of rate consolidation while to some limited extent again accommodating MAWC's cost/rate problems with some of the smaller districts. The industrial customers I represent will certainly make all reasonable efforts to participate constructively in any settlement discussions. One key will be industrial water rates for the St. Joseph District that for all practical purposes do not exceed the cost of the service provided. Another key, of course, will be that any solution must be consistent with applicable law.

INDUSTRIAL RATES FOR THE ST. JOSEPH DISTRICT

Q DID MAWC PROVIDE A CLASS COST-OF-SERVICE STUDY FOR THE ST. JOSEPH DISTRICT IN ITS WORKPAPERS?

A Yes. That study is attached as Schedule 6. I have reviewed the study and find that it supports an increase for the St. Joseph District industrial rates that is at or near the district average.

CONCLUSIONS

Q PLEASE SUMMARIZE YOUR CONCLUSIONS.

A Simply put, the rates among and within the districts must reflect the cost of services provided. Any consolidation of tariffs must proceed from combinations that have similar costs and usage characteristics so that the resulting rates can continue to reasonably reflect costs. In contrast, the MAWC consolidated tariff proposal utterly fails because it ignores every cost difference among the district.

MAWC bears the responsibility for providing the services at costs consistent with just and reasonable rates. MAWC cannot be allowed to pursue its corporate growth based on acquisitions destined to be subsidized by all customers or any subset of customers. To the extent MAWC has acquired properties and incurred costs not consistent with just and reasonable rates, MAWC should bear the cost, not existing customers, and perhaps not even the customers of the acquired properties.

Q DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A Yes it does.

Qualifications of Donald E. Johnstone

Q PLEASE STATE YOUR NAME AND ADDRESS.

A Donald E. Johnstone. My address is 384 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 economic cost analysis, data base design and data processing. 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 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 thirty 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.

Missouri American Water Company
Missouri PSC Docket No. WR-2011-0337

Test Year Rate Base and Rate Revenue by District

Line		Test Rate Revenue		Test Year Rate Base	
No.	Water District	Amount	Percent	Amount	Percent
	(A)	(B)	(C)	(D)	(E)
1	St. Louis Metro	$156,950,851	73.52%	$554,829,371	71.02%
2	St. Joseph	20,115,245	9.42%	80,385,209	10.29%
3	Joplin	17,134,991	8.03%	70,228,945	8.99%
4	Parkville	5,089,872	2.38%	23,784,755	3.04%
5	Mexico	3,366,081	1.58%	16,321,448	2.09%
6	Jefferson City	5,505,796	2.58%	16,273,667	2.08%
7	Warrensburg	3,519,065	1.65%	13,125,109	1.68%
8	Brunswick	363,779	0.17%	2,067,425	0.26%
9	Warren County	334,880	0.16%	1,308,663	0.17%
10	Maplewood Lake Carmel	147,560	0.07%	239,866	0.03%
11	Roark	$260,278	0.12%	$1,116,382	0.14%
12	Ozark Mountain	192,218	0.09%	561,219	0.07%
13	Loma Linda	104,683	0.05%	247,927	0.03%
14	Riverside Estates	112,757	0.05%	241,580	0.03%
15	White Branch Water	83,189	0.04%	197,526	0.03%
16	Lake Taneycomo	58,363	0.03%	132,481	0.02%
17	Lakewood Manor	23,063	0.01%	108,401	0.01%
18	Spring Valley	62,189	0.03%	51,903	0.01%
19	Rankin Acres	51,683	0.02%	41,854	0.01%
20	Total	$213,476,543	100.00%	$781,263,731	100.00%

Source: Staff Accounting Schedules/ EMS workpapers

Missouri American Water company
Missouri PSC Docket No. WR-2011-0337

Test Year Rate Revenue and Revenue per 1000 Gallons by District

Line No.	Water District	District Total: Present Rate Revenue	District Total: Usage (1000 Gl)	District Total: Rate Revenue per 1000 Gal
	(A)	(B)	(C)	(D)
1	St. Louis Metro	$156,950,851	43,719,002,779	$0.0036
2	St. Joseph	20,115,245	5,716,731,592	0.0035
3	Joplin	17,134,991	4,000,713,983	0.0043
4	Parkville	5,089,872	668,786,000	0.0076
5	Mexico	3,366,081	551,851,854	0.0061
6	Jefferson City	5,505,796	1,070,550,105	0.0051
7	Warrensburg	3,519,065	756,924,600	0.0046
8	Brunswick	363,779	21,616,082	0.0168
9	Warren County	334,880	30,109,682	0.0111
10	Maplewood Lake Carmel	147,560	33,379,965	0.0044
11	Roark	260,278	59,076,480	0.0044
12	Ozark Mountain	192,218	14,412,275	0.0133
13	Loma Linda	104,683	29,716,647	0.0035
14	Riverside Estates	112,757	16,400,925	0.0069
15	White Branch Water	83,189	-	0.0000
16	Lake Taneycomo	58,363	6,218,931	0.0094
17	Lakewood Manor	23,063	1,448,488	0.0159
18	Spring Valley	62,189	4,252,830	0.0146
19	Rankin Acres	51,683	-	-
20	Total	$213,476,543	56,701,193,218	$0.0038

Source: Staff Accounting Schedules/ EMS workpapers

Missouri American Water company
Missouri PSC Docket No. WR-2011-0337

Test Year Rate Revenue and Revenue per 1000 Gallons by District

		Residential		
Line No.	Water District	Present Rate Revenue	Usage (1000 Gl)	Rate Revenue per 1000 Gal
	(A)	(B)	(C)	(D)
1	St. Louis Metro	$116,663,161	29,709,995,257	$0.0039
2	St. Joseph	10,187,047	1,618,975,592	0.0063
3	Joplin	9,581,409	1,305,209,983	0.0073
4	Parkville	3,581,300	417,584,000	0.0086
5	Mexico	1,747,507	209,762,854	0.0083
6	Jefferson City	3,132,723	478,852,041	0.0065
7	Warrensburg	2,004,091	347,319,600	0.0058
8	Brunswick	243,464	13,396,082	0.0182
9	Warren County	330,754	29,610,680	0.0112
10	Maplewood Lake Carmel	91,300	21,478,965	0.0043
11	Roark	165,056	37,075,714	0.0045
12	Ozark Mountain	192,218	14,412,275	0.0133
13	Loma Linda	94,591	26,355,200	0.0036
14	Riverside Estates	112,757	16,400,925	0.0069
15	White Branch Water	83,189	-	0.0000
16	Lake Taneycomo	58,363	6,218,931	0.0094
17	Lakewood Manor	23,063	1,448,488	0.0159
18	Spring Valley	62,189	4,252,830	0.0146
19	Rankin Acres	51,683	-	-
20	Total	$148,405,865	34,258,349,417	$0.0043

Source: Staff Accounting Schedules/ EMS workpapers

Missouri American Water company
Missouri PSC Docket No. WR-2011-0337

Test Year Rate Revenue and Revenue per 1000 Gallons by District

		Industrial		
Line No.	Water District	Present Rate Revenue	Usage (1000 Gl)	Rate Revenue per 1000 Gal
	(A)	(B)	(C)	(D)
1	St. Louis Metro	$6,369,415	4,323,058,450	$0.0015
2	St. Joseph	2,524,884	1,206,960,000	0.0021
3	Joplin	2,507,111	1,295,217,000	0.0019
4	Parkville	22,902	3,429,000	0.0067
5	Mexico	557,960	127,504,000	0.0044
6	Jefferson City	316,898	121,546,064	0.0026
7	Warrensburg	109,814	41,284,000	0.0027
8	Brunswick	2,941	57,000	0.0516
9	Warren County	-	-	-
10	Maplewood Lake Carmel	-	-	-
11	Roark	-	-	-
12	Ozark Mountain	-	-	-
13	Loma Linda	-	-	-
14	Riverside Estates	-	-	-
15	White Branch Water	-	-	-
16	Lake Taneycomo	-	-	-
17	Lakewood Manor	-	-	-
18	Spring Valley	-	-	-
19	Rankin Acres	-	-	-
20	Total	$12,411,925	7,119,055,514	$0.0017

Source: Staff Accounting Schedules/ EMS workpapers

Missouri American Water Company
Missouri PSC Docket No. WR-2011-0337

Test Year Rate Base and Capital Plans by District

Line No.	Water District	Staff Rate Base	MAWC Capital Plans 2011-2015
	(A)	(B)	(C)
1	St. Louis Metro	$554,829,371	$27,694,314
2	St. Joseph	80,385,209	1,136,053
3	Joplin	70,228,945	500,000
4	Parkville	23,784,755	-
5	Mexico	16,321,448	-
6	Jefferson City	16,273,667	67,104,291
7	Warrensburg	13,125,109	-
8	Brunswick	2,067,425	-
9	Warren County	1,308,663	-
10	Maplewood Lake Carmel	239,866	-
11	Roark	1,116,382	-
12	Ozark Mountain	561,219	-
13	Loma Linda	247,927	-
14	Riverside Estates	241,580	-
15	White Branch Water	197,526	-
16	Lake Taneycomo	132,481	-
17	Lakewood Manor	108,401	-
18	Spring Valley	51,903	-
19	Rankin Acres	41,854	-
20	Total	$781,263,731	$96,434,658

Sources: Staff Accounting Schedules and MAWC Response to AGP DR 197: Projects over $250,000

Missouri American Water Company
Missouri PSC Docket No. WR-2011-0337

Test Year Present Rate Revenue and Increase by District

Line No.	Water District	Staff Present Rate Revenue	Staff Revenue Requirement Increase: Low Amount	Low Percent	Middle Amount	Middle Percent	High Amount	High Percent
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
1	St. Louis Metro	$156,950,851	$8,713,683	5.6%	$10,679,121	6.8%	$12,707,022	8.1%
2	St. Joseph	20,115,245	2,508,793	12.5%	2,785,144	13.8%	3,061,495	15.2%
3	Joplin	17,134,991	1,479,580	8.6%	1,721,015	10.0%	1,962,452	11.5%
4	Parkville	5,089,872	850,597	16.7%	932,366	18.3%	1,014,133	19.9%
5	Mexico	3,366,081	722,672	21.5%	778,782	23.1%	834,893	24.8%
6	Jefferson City	5,505,796	2,590,955	47.1%	2,646,901	48.1%	2,702,848	49.1%
7	Warrensburg	3,519,065	229,627	6.5%	277,418	7.9%	322,540	9.2%
8	Brunswick	363,779	508,968	139.9%	516,176	141.9%	523,558	143.9%
9	Warren County	334,880	170,949	51.0%	175,448	52.4%	179,948	53.7%
10	Maplewood Lake Carmel	147,560	165,868	112.4%	166,383	112.8%	166,899	113.1%
11	Roark	260,278	140,268	53.9%	142,668	54.8%	145,069	55.7%
12	Ozark Mountain	192,218	180,754	94.0%	171,960	89.5%	183,167	95.3%
13	Loma Linda	104,683	40,893	39.1%	41,426	39.6%	41,960	40.1%
14	Riverside Estates	112,757	87,454	77.6%	87,973	78.0%	88,492	78.5%
15	White Branch Water	83,189	42,498	51.1%	42,922	51.6%	43,347	52.1%
16	Lake Taneycomo	58,363	38,124	65.3%	38,409	65.8%	38,694	66.3%
17	Lakewood Manor	23,063	27,386	118.7%	27,619	119.8%	27,852	120.8%
18	Spring Valley	62,189	21,354	34.3%	21,465	34.5%	21,577	34.7%
19	Rankin Acres	51,683	18,290	35.4%	18,380	35.6%	18,470	35.7%
20	Total	$213,476,543	$18,538,713	8.7%	$21,271,576	10.0%	$24,084,416	11.3%

Source: Staff Accounting Schedules/ EMS pdf workpapers

MISSOURI-AMERICAN WATER COMPANY
ST. JOSEPH DISTRICT

COMPARISON OF COST OF SERVICE WITH REVENUES UNDER PRESENT AND PROPOSED RATES
FOR THE TEST YEAR ENDED DECEMBER 31, 2010

Customer Classification	Cost of Service		Revenues, Present Rates		Revenues, Proposed Rates District Specific Pricing		Proposed Increase	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent Increase
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Residential	$ 12,486,602	52.1%	$ 9,964,873	50.8%	$ 12,009,142	50.2%	$ 2,044,269	20.5%
Commercial	3,622,069	15.1%	3,256,278	16.6%	3,906,983	16.3%	650,705	20.0%
Industrial	688,210	2.9%	609,331	3.1%	751,781	3.1%	142,450	23.4%
Public Authority	550,526	2.3%	553,260	2.8%	679,138	2.8%	125,878	22.8%
Total - Rate A	17,347,408	72.4%	14,383,742	73.3%	17,347,044	72.4%	2,963,302	20.6%
Sales for Resale	2,604,173	10.9%	1,976,355	10.1%	2,604,909	10.9%	628,554	31.8%
Rate J - Large Users	3,654,141	15.3%	2,979,959	15.2%	3,653,954	15.3%	673,995	22.6%
Private Fire Service	341,329	1.4%	265,682	1.4%	341,409	1.4%	75,727	28.5%
Public Fire Service	-	0.0%	-	0.0%	-	0.0%	-	-
Total Sales	23,947,051	100.0%	19,605,737	100.0%	23,947,316	100.0%	4,341,579	22.1%
Other Revenues*	894,890		$793,319		894,890		101,571	12.8%
Total	$ 24,841,941		$ 20,399,056		$ 24,842,206		$ 4,443,150	21.8%

* Includes Contract Sales

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Review of Economic, Legal and Policy Considerations of District-Specific Pricing and Single Tariff Pricing	**)**	**SW-2011-0103**

COMMENTS AND BRIEF
OF AG PROCESSING INC A COOPERATIVE

I. INTRODUCTION.

First, Ag Processing Inc a Cooperative (AGP) would like to thank the Commission for considering this question. As this brief will make clear, we do not agree that single-tariff pricing should be re-adopted, but we nevertheless appreciate the opportunity to comment on the suggestion.

Second, AGP is a large industrial customer in St. Joseph, Missouri and uses significant quantities of water supplied by Missouri-American Water Company (MAWC). AGP has participated in numerous MAWC rate cases and, in particular, participated in the 2000 rate case (WR-2000-281) that concerned the inclusion of the large new water plant to serve St. Joseph.

There, along with other industrials, AGP argued that, even though single-tariff pricing (STP) might save on the level of rates in St. Joseph as compared to district specific pricing (DSP), STP was incorrect as an approach and would lead to greater problems in the future if it continued to be followed. We urged a careful look at whether MAWC's construction of the new water plant was justified and prudent.

DEJ Direct Testimony
Attachment 1

In that case the Commission determined to move away from STP toward DSP and, as a result, charged the value of the new St. Joseph plant to the St. Joseph district.[1/] That plant continues to be paid for by the St. Joseph customers and, based on our understanding, no others.

Having paid and continuing to pay for the new St. Joseph plant, AGP understands that in this proceeding the Commission is taking another look at STP as against the DSP approach. Although it might conceivably reduce AGP's water costs to some degree, STP remains no less incorrect now than it did ten years ago. AGP respectfully recommends to the Commission that the existing approach - district specific pricing -- be retained.

II. ARGUMENT.

A. STP Remains As Wrong Now As It Was 10 Years Ago.

The STP proposal is nothing more complicated than taking the costs of a utility's districts, combining them, then developing essentially uniform tariffs that recover those costs across the separate districts. This mechanism, of course, disregards costs that are specific to each district, especially the district specific capital costs necessary to supply service to each separate district.

[1/] There was, as we recall, a small disallowance for excess capacity. We are uncertain as to the current status of this disallowance.

Instead of directly charging each district for its unique costs, STP simply "averages" those costs and distributes them to all the districts with the result being that company customers in any of the districts only accidentally pay the actual costs that the company incurs to provide them with service. While this may be more convenient and expedient for the Company in preparing rate cases, the Courts of this state have often cited an axiom that aptly fits this situation:

> [N]either convenience, expediency or necessity are proper matters for consideration in the determination of whether or not an act of the commission is authorized by the statute.

See, *State ex rel. Kansas City v. Public Service Commission*,[2/]; *State ex rel. Util. Consumers Council v. Public Service Commission*,[3/]; *State ex rel. Missouri Cable Telecommunications Ass'n v. Public Service Commission*,[4/].

AGP respectfully encourages the Commission to keep this guiding principle in mind as it re-evaluates STP as compared to the more appropriate DSP approach.

B. Rate Discrimination Generally.

[2/] 257 S.W. 462 (Mo. *en banc* 1923).

[3/] 585 S.W. 41, 49 (Mo. *en banc* 1979).

[4/] 929 S.W. 2d 768, 772 (Mo. App. W.D. 1996).

The legal requirement is that the rate approved by the Commission must be lawful, reasonable, nondiscriminatory and non-preferential.[5]

1. The General Assembly Has Circumscribed the Commission's Ability to Create Subsidized Rates.

The Commission's jurisdiction is determined by the General Assembly's statutory delegation of regulatory power to the Commission. Section 393.130 RSMo 2000[6] limits the Commission's power in this particular case. Single Tariff Pricing (STP) violates Section 393.130, which provides in pertinent part:

> 1. . . . . ***All charges*** made or demanded by any . . . water corporation . . . ***for water . . . service rendered or to be rendered shall be just and reasonable . . . . Every unjust or unreasonable charge made or demanded for . . . water . . . service***, or in connection therewith . . . ***is prohibited***.

The previously commenting parties appear to have focused on this provision in the statute. But they overlook a later portion of the same statute.

> 3. ***No . . . water corporation . . . shall make or grant any undue or unreasonable preference or advantage to any . . . locality***, or to any particular description of service in any respect whatsoever, or ***subject any . . . locality*** or any particular description of service ***to any undue or unreasonable preju-***

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[5] Most of the discussion on this topic has focused on the lack of "undue" discrimination. Section 393.130 has, however, a broader scope which does not appear to have been addressed.

[6] All statutory citations are to RSMo 2000.

dice or disadvantage in any respect whatsoever. [Emphasis Added]

Subsection 1 requires rates to be just and reasonable for the "***water . . . service rendered***." The setting of rates for service in a district, which are higher than the reasonable cost to render the water service in such district violates this subsection. When none of the utility districts are interconnected, and none of the customers in any one of the districts is provided service by any of the other districts, any attempt to impute or include in the rates of one district, the costs of providing service to another district, is prohibited by Subsections 1 and 3 of Section 393.130.

Subsection 3 expands on the anti-discrimination and anti-preference provision of the law relating to water companies. The General Assembly added this provision and, we believe, went beyond the "undue discrimination" prescriptions contained in subsection 1 by adding additional language directed to "localities." This provision is written in the disjunctive: not only is it unlawful to subject a ***locality*** to "any undue or unreasonable prejudice or disadvantage in any respect whatsoever"; it is equally unlawful to grant a ***locality*** "any undue or unreasonable preference or advantage . . . in any respect whatsoever." *See*, *Alexander v. Chicago, M. & St. P. R. Co.*[7], interpreting what is now Section 387.110, which includes virtually identical language pertaining to common carriers.

[7] 147 S.W. 217 (Mo. 1912).

2. The Legislature's Choices Should Be Respected.

The legislature's choice of wording has significance. We do not believe that the General Assembly acted precipitously nor do we believe that the words that were chosen were mere surplusage. Instead they draw a distinction between (a) prohibiting "undue" discrimination between ***individual*** customers by putting them into a class with other ***individual*** customers sharing common load and usage characteristics, and (b) prohibiting an undue or unreasonable "preference or advantage" or an undue or unreasonable "prejudice or disadvantage" "in ***any*** respect whatsoever" to a ***locality***. These language choices deserve respect, and they highlight a distinction.

A utility could not rationally set a rate for each individual customer, but must group customers by common load and usage characteristics. Doing so is not "undue discrimination." But to attempt to unify physically separate and unconnected districts by averaging their rates violates introduces "undue" discrimination and an "undue" preference or disadvantage.

In the case of Single Tariff Pricing for non-interconnected districts with substantially different district specific costs of service, both prohibitions in Section 3 are broken. Not only does STP violate the law by granting undue or unreasonable preference or advantage to those localities (districts), whose resulting rates are lower than the cost of rendering such districts with water service, but STP also violates the law by subjecting other localities (districts) to undue or unreasonable prejudice or disadvantage, by requiring them to pay higher rates than justified by the cost of rendering those districts with water service. Under STP, it is only happenstance and chance that the rates in any one locality (district) recover no more or no less than the cost of rendering such district's water service.

3. The General Assembly Is Presumed to Know Existing Judicial Construction.

Legislative selection of terms such as "undue preference" and "unreasonable discrimination" as limitations on a utility's authority were intentional. They are declarative of the common law rule, founded on public policy requiring one engaged in a public calling to charge a reasonable rate without discrimination. *State ex rel. Laundry, Inc. v. Public Service Commission*.[8/] Use of these terms sets clear limits on the grant of authority to the Commission. The terms "discrimination" and "preference," qualified with the additional terms "undue" and "unreasonable" have been construed by our courts to foreclose

[8/] 34 S.W. 2d 37 (Mo. 1931). The *Laundry* case should be required reading for anyone interested in understanding the anti-discrimination provisions of Section 393.130.2 and 3. There is a very scholarly discussion of the purpose of the law prohibiting undue discrimination and undue preference found there. In *Laundry*, the Court determined that there was undue and unlawful discrimination for failure to give the same rate to all who used water under the same or substantially similar circumstances. In that case the company had a manufacturers rate and refused to give it to laundries, who were not manufacturers but used water the same as manufacturers. Quite obviously, the converse, where one locality is charged the same rate as another locality but the costs to serve each locality are substantially different, is also discrimination.

severance of the close relationship between cost-causers and cost-payers.

The parties heretofore have commented that there appears to be no precedent one way or the other on this issue. We think they may have overlooked several of the important cases in addition to *Laundry, supra*. For example:

In *State ex rel. City of Cape Girardeau v. Public Service Commission*,[9/] the court confirmed rejection of a rate proposal that would have "pass[ed] on to all residential customers within the city the benefits derived from the consumption of one user; it would [have] establish[ed] residential rates which would not reflect the true cost to those individual customers.

In *State ex rel. City of West Plains v. Public Service Commission*,[10/] the Supreme Court noted that a telephone utility's prior tariffs that passed through several individual municipal franchise taxes to ratepayers in other communities that did not impose such taxes was an "unjust discrimination" and upheld tariffs that limited charges for municipal taxes ***only*** to the utility customers ***living within those municipalities***.

And, in *State ex rel. City of Grain Valley v. Public Service Commission*,[11/] the Missouri Court of Appeals held that Southwestern Bell was in violation of Section 392.200, the anti-discrimination statute applicable to telephone companies, for

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[9/] 567 S.W.2d 450, 454 (Mo.App., 1978).

[10/] 310 S.W.2d 925 (Mo. en banc 1958).

[11/] 778 S.W.2d 287 (Mo. App. W.D. 1989) providing the same service under the same conditions to two localities but charging one locality a different rate than the other locality. This, of course, is the converse to STP, which is the providing of a different service under different conditions to differing localities but charging all localities the ***same*** rates, thereby subjecting some utility service territories (localities) to undue or unreasonable prejudice or disadvantage while granting undue or unreasonable preference or advantage to the other utility service territories (localities) in violation of Subsection 3 of Section 393.130.

C. Operationally Separate Service Districts Have Different Costs.

Most of the water and sewer districts, existing and proposed, are operationally separate. There is no physical connection between these districts. For example, there is no possibility that the water treatment plant, mains or distribution facilities in St. Joseph may be used by the ratepayers in St. Charles, nor can the wells that provide a source of supply in Joplin provide service to customers in Warrensburg. The separate districts are discrete operating entities that have their own unique treatment plants, and their own ***unique*** sources of supply. Costs that are imposed by the provision of service to customers in one district simply do not benefit customers in another district. Utility plant that is used and useful in providing service to customers in St. Charles is not used and useful in providing service to customers in Joplin.

Staff has referenced the cost of water processing as being different. St. Joseph draws supplies from a Rainey well situated alongside the Missouri River (essentially as it did from its old plant although benefiting from the alluvial filtration of the Rainey well).

Joplin draws from wells as does Warrensburg but even those sources differ. Competent hydrogeologists would inform the Commission of the differences in well water from wells that are in the Ozark mountains than from those just south of the Missouri River, with the southern wells drawing water that is far less brackish and requiring less treatment to eliminate sulphur odors. There are other problems with surface water, and each separate district and source requires analysis and different treatment options -- and costs -- to bring the raw water to a finished state. The difference results, among other things, from the extent of glaciation during the most recent ice age.

The touchstone of public utility rate regulation is the rule that one group or class of consumers shall not be burdened with costs created by another group or class. *Coffelt v. Ark. Power & Light Co.*[12/]; *Utilities Comm. v. Consumers Council*[13/], *Jones v. Kansas Gas & Elect. Co.*[14/]

[12/] 248 Ark. 313, 451 S.W. 2d 881 (1970).

[13/] 18 N.C. App. 717, 198 S.E. 2d 98 (1973).

[14/] 222 Kan. 390, 401, 565 P.2d 597, 606 (1977).

D. When Cost Are Shifted From Cost-Causers, Discrimination Results.

Under Section 393.130.3, an undue or unreasonable preference or advantage is given some districts while other districts are subjected to undue or unreasonable prejudice or disadvantage when the cost recovery is separated from cost causation. Transferring a significant portion of the cost responsibility caused by the use of a physically discrete utility plant and necessitated and caused by the usage of one group of customers in the served to another group of customers in different localities who have or derive no benefit whatever from that utility plant violates Section 393.013.3. Under STP, depending upon the district in which they are located, utility customers are either being subjected to an undue or unreasonable prejudice or disadvantage or are given an undue preference or advantage.

At its most basic, the justification for ignoring these undisputed cost differences is that it will allow the utility Company to spread the costs of its operations over more customers. Just as obviously, those who would otherwise have to pay the costs are given an unreasonable preference; those who have to pay costs that they did not cause are unduly prejudiced.

Spreading one district's discrete costs to the other districts unquestionably will reduce the rate impact on the customer in the ***benefited*** district. Both the common law and Section 393.130 are barriers to discrimination between cost-causers and cost-payers.

There is a useful (though imperfect) analogy in the electric field. Several years ago, the citizens of the State of Missouri, through an initiative Proposition, amended the Public Service Commission statutes to deny the Commission the authority to pass through costs associated with electric plant that was not used and useful. *See*, Section 393.135. Although applicable explicitly only to electric utilities, the section, and the fact that it was passed by an initiative, strongly hints that public sentiment would preclude the use of regulatory devices to charge ratepayers costs that are associated with utility investment that is not used and useful to them.

E. Single Tariff Pricing Is Poor Public Policy and Inconsistent With Objectives of Regulation.

We have noted above the inappropriate nature of STP based on its preferential treatment for some districts and its prejudicial treatment against other districts via its complete and undisputed departure from district by district cost of service. STP is also unreasonable on the same basis. Approaching the question from this perspective reveals an entirely different analysis.

As held in the *Jones* case, *supra*, the relationship between costs and rates is the essence of public utility regulation. Consider for a moment how this relationship came to be recognized.

Public utility regulation was established because the people, through their elected representatives, recognized that public utility operations were capital intensive and that duplication of competing facilities within a geographical territory was economically inefficient. Accordingly, public utilities were permitted to have a monopoly in a given service territory. Recognizing, however, that monopoly powers were destined to result in abuses, the legislature established a regulatory commission to counterbalance what would otherwise be the unrestrained exercise of monopoly power. The regulatory commission was established as the substitute for competition and was intended to establish, through regulation, a close approximation of the pricing structure that would result if competition were permitted. Thus the *quid pro quo* for the monopolistic rights granted the utility was its submission to regulation and its commitment to safe, adequate and non-discriminatory service to all requesting that service within its monopoly territory.

One of the typical abuses of monopoly power that the regulators were to prevent was the monopolist's ability to enhance or protect its market dominance by overcharging customers for services as to which there was no effective competition, while using the excess monopoly rents gained thereby to subsidize below-cost operations in other areas. Thus was born the companion principle that each separate utility service should, to the maximum extent possible, be priced based on its cost including an approximately equal rate of return for the utility on the value of its investment used to provide that service. To say it in another way, the question was posed: What rate would likely result if robust competition were permitted? The answer is that no service would be provided at much above or much below cost, because, in either case, and in a competitive environment, either the below-cost supplier would be forced out of business, or competitors would undercut the prices of the above-cost supplier. In all cases, after several iterations, rates that represented a return of the cost to provide the particular service, including a reasonable rate of return on the needed investment, would develop.

Thus approached, the concept of "cost of service" is not limited to the aggregate revenue requirement of the utility, but extends to cover the appropriate pricing of service to customers and groups of customers that are reasonably related as to cost and usage characteristics. Regulation that does not achieve this objective is failing its basic mission and purpose. Regulation that achieves control only of the **aggregate** level of utility revenues is doing an incomplete job. After all, regulation does not exist to benefit the monopoly utility; it exists to protect the public from the abuses of monopoly.

This case demonstrates the effect of abandoning these basic principles of public utility regulation. Cost differences between physically discrete service districts are acknowledged as present, but then dismissed or ignored under STP.

There are other practical reasons behind cost-based rates, including:

- ***Cost based DSP rates send proper price signals to utility customers***. They permit appropriate evaluation of alternatives such as housing insulation, electric appliances, selection of manufacturing equipment on efficiencies, and (in this case) the evaluation of the cost of the use of scarce resources such as water, whether to install more efficient plumbing fixtures or engage in "zero-scaping" to reduce lawn-watering. They promote wise use of resources and meaningful comparison of available alternatives. In some instances, they may even cause previously unexplored alternatives to become economic.

- ***Cost based DSP rates provide appropriate public feed-back for the utility regarding its investment and encourage prudence in making that investment***. If rates do not track costs, or if ratepayers are over-charged or under-charged, customer reaction to the costs associated with utility investment will be misdirected and inappropriate. Excessive investment will be inhibited by the fear of public scrutiny and wrath.

  There is an example of this available in Missouri-American's construction of the new St. Joseph plant. Well-documented in the record of the WR-2000-281 case, MAWC urged community support of the construction, arguing that St. Joseph would only bear one-third of the new plant's cost, with the remainder spread to other districts. When a 80%-250% increase in rates arrived (depending on the meter size), there was much outcry. Assurance of district specific pricing would prevent a recurrence and avoid overbuilding when district service parameters do not support the size of a construction project.

- ***Cost based DSP rates do not mask the true costs of an acquisition by one utility of another district.*** A utility business plan to acquire another service district (or several) should be similar to that involved in a main extension question: Does the additional business justify the investment? An up-front loss may be required in order to earn future returns.[15/]

- ***Cost based DSP rates provide earnings stability for the utility***. When customer usage patterns shift, utility revenues will shift. If rates are tied to costs, costs will also shift in synchrony with changes in usage patterns; utility earnings will remain stable. Conversely, if rates and costs are not related, customer

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[15/] It is occasionally forgotten that utilities are only guaranteed an ***opportunity*** to earn a reasonable return. Prudent management is still required.

> usage shifts will still change revenues, but underlying costs may not change with resultant instability and unpredictability in utility earnings.

In *In re Gas Service Company*,[16/] this Commission ruled:

> Above all, in the opinion of the Commission, *the* ***touchstone*** *of rate design is that the rates must and should reflect the cost to serve that particular customer or group of customers*. To depart from this basic principle will place the regulator in a never-never land wherein he can design rates to suit his own particular whim or caprice, or satisfy his own preconceived ideas of how society should be charged for services. [Emphasis added].

III. CONCLUSION.

The Commission of today should recognize the validity of these well-established principles. By promoting STP, utilities seek to ignore costs, how costs are incurred, and for whose benefit costs are incurred. STP should not enjoy a resurgence.

AGP has listened to several arguments that attempt to justify socialization of utility costs. But AGP picked up and continues to pick up its tab for the new St. Joseph plant. We did not ask for a subsidy from another MAWC district. Though more costly, we advocated DSP because that was the proper approach. Having once paid its dues, AGP does now not wish to pay those of another. We respectfully urge that DSP be retained and that STP be rejected.

Respectfully submitted,

[16/] 21 Mo. P.S.C. (N.S.) 262 (1976).

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ATTORNEYS FOR AG PROCESSING INC A COOPERATIVE

SERVICE CERTIFICATE

I certify that I have caused a true copy of the foregoing pleading to be provided to parties of record in this proceeding through electronic service upon the addresses provided by the EFIS.

December 22, 2010

An attorney for Ag Processing Inc a Cooperative