

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

In the Matter of Missouri-American	)	
Water Company's Request for Authority	)	Case No. WR-2007-0216 and
To Implement a General Rate Increase	)	SR-2007-0217
For Water Service Provided in Missouri	)	
Service Areas	)	

In the Matter of Missouri-American	)	
Water Company's Filing of Revised Sewer	)	Case No. ST-2007-0443
Tariff Sheets to Implement a Capacity	)	Tariff Nos. JS-2007-0713
Charge for Missouri-American's Warren	)	and JS-2007-0714
County and Jefferson County Sewer	)	
Districts	)	

**REPLY BRIEF OF INTERVENOR CITY OF JOPLIN**

**COMES NOW** Intervenor City of Joplin and for its Reply Brief, pursuant to this Commission's Order, states as follows:

The Joint Initial Post-Hearing Brief of Signatory Parties, filed in this Commission on September 7, 2007, glosses over the issue of the proper method of allocating corporate expenses to the various districts within the Missouri-American Water system. Almost nowhere in the Signatories' Brief is there any substantive discussion about the cost drivers for the various corporate expenses to be allocated. The Signatories' Brief references the Company's position, Staff's position, and Joplin's position with respect to the allocation of corporate expenses. However, Signatories' Brief is devoid of an analysis of where such expenses come from, what causes such expenses to be incurred and the rationale for allocation. Regarding allocation costs, "(T)he Commission must decide which is the most reasonable method...". *In re Union Electric*, 27 Mo. P.S.C. (N.S.) 183, 289. Without restating the arguments contained in Joplin's Post Hearing Brief, a synopsis of those cost drivers with respect to certain larger expenses illustrates

that the methodology used by the City of Joplin is the most reasonable method of allocating costs.

### **CALL CENTERS**

Call Centers answer telephone calls from customers. More customers in a district, more calls. Accordingly, the company recommended using the number of customers to allocate call center expense. Similarly, the City of Joplin advocates using customer numbers to allocate the call center expense. Only the Staff of the Public Service Commission has suggested that customer numbers should not be used to allocate call center expense. However, the Joint Recommendation filed by the signatory parties adopts this Staff position with respect to allocating call center expense.

This Commission's inquiry should determine what is the primary cost driver for the expense. That cost driver should then be used as an allocation factor. The testimony is clear that payroll is not a primary factor in driving these costs. The company's witness Grubb agreed that payroll is less accurate than customer numbers. To allocate call center expenses based upon payroll, where such expenses are directly attributable to the number of customers, is to ignore the primary cost driver. This is certainly not the best allocation factor. The role of the Commission is to select the best allocation factor, which is clearly the number of customers with respect to call center expense.

### **CUSTOMER ACCOUNT EXPENSES**

Customer account expenses are directly, and solely, determined based upon the number of customers in the district. That is the proper allocation method for this corporate expense. The company agrees with this allocation method as does the City of

Joplin. However, the Staff again argues that customer accounts should be allocated based upon payroll expense.

This Commission selects the best allocation factor to allocate each administrative or other expense of the corporate offices. In this case that is customer numbers. By adopting the payroll expense, the Joint Recommendation ignores the primary cost driver for the customer's account expense. The customer number method of allocation is the only allocation method that is directly tied to the customer account expense and thus should be adopted by this Commission.<sup>1</sup>

The allocation methods proposed by the City of Joplin have a more direct and logical connection to the cost drivers for each of the various corporate expenses. While the joint signatories disregard the testimony of Ms. Jones, her testimony does stand as the only testimony of a party who actually is involved in day-to-day allocation of costs. Moreover, her recommendations to allocate certain costs, such as call center expense, shared services, customer accounts, etc., are supported by the Staff's witnesses and their Direct Testimony. With respect to these major expenses, such as call center, shared services and customer account expense, only the testimony of Staff's witness, Steve Rackers, is divergent, and his opinion lacks any rationale. There is general agreement that these costs are best allocated by customer numbers and only the Staff has taken a different position.<sup>2</sup> This Commission's responsibility, however, is to select the most

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<sup>1</sup> Staff's witness Rackers at one point made the questionable assertion that the sole purpose for any corporate activities is to benefit employees of the corporation. Customers of the Missouri-American Water system would be surprised that the new call center was solely designed to aid employees and not too benefit customers. Certainly, the company would not take this position nor is it rational for the Staff to assert the same.

<sup>2</sup> The rationale for the Staff's position in the Joint Recommendation is absent from the text of the Joint Recommendation. There is no testimony from the company witnesses that they believed the Staff's allocation method for the corporate costs to be superior to their own. The Joint Recommendation simply reflects that the method is not of financial consequence to the Company.

appropriate allocation factor; such allocation factors are those as testified to by the City of Joplin's witness, Ms. Jones.

To determine that customer number is not the best cost allocation method for call center expense, customer account expense, shared service expense, would require rejection of the **best** method for allocating such expenses. The Joint Intervenor's Brief simply argues that the opinions of Mr. Rackers should be indulged and all testimony to the contrary should be rejected. This is not a reasonable way of determining the best allocation method. The City of Joplin requests that the Commission reject the Staff's position and adopt the position of the City of Joplin based upon evidence, testimony and logic.

#### **PAYROLL ANNUALIZATION**

The payroll and payroll tax annualization accounts have been inappropriately calculated and should not be accepted by this Commission. As Ms. Jones testified, actual payroll was \$290,000.00 for the test year, yet the annualized number was close to \$800,000.00. (Tr. Vol. 14, 355: 8-11). No evidence in the record supports such an increase. The proposed payroll annualization is not based on any substantial or competent evidence. The Commission is respectfully requested to reject the Joint Recommendation and remove this miscalculation from its Final Order.

#### **THE NET EFFECT OF JOINT STIPULATION IS UNDULY DISCRIMINATORY TO JOPLIN**

The Joint Brief of the signatory parties attempts to argue that there is a fair and reasonable allocation of costs to Joplin. However, that argument fails to take into account the practical results of the allocation method used by the Staff and the signatory parties in the Joint Recommendation.

Originally, Missouri-American Water sought a rate increase of approximately \$40 million. The Joint Recommendation reduces that rate increase to \$28 million. That results in a reduction in the amount of new revenue in this case of 30%. Yet, the revenue requirements for Joplin District ratepayers have barely changed: From \$4.8 million to \$4.6 million - - less than a five percent (5%) reduction in revenues from the Joplin District has occurred. Clearly, these numbers reflect that the Joint Recommendation is discriminatory against the City of Joplin. The majority of the negotiated revenue reductions go to other districts, particularly St. Louis and St. Charles Counties.

The primary method by which this discriminatory allocation of the reduced revenue requirement is affected is the allocation of corporate cost based inexplicably on payroll and not on the number of customers served. Contrary to the assertions contained in the Joint Brief, this Commission did NOT decide that payroll is the preferred method for allocation of expenses, or that it is preferable to using the number of customers served as the basis for the allocation. In the one Commission case cited in the Joint Brief, the Commission chose to use payroll as an allocation factor instead of the Staff's position at the time that administrative and general expenses be allocated on the basis of the total cost of the services after subtracting the administrative and general expenses. *In re Union Electric*, 27 Mo. P.S.C. (N.S.) 183, 290. The Commission simply chose payroll over the only other alternative proposed. Unlike the current case, no party had proposed that the number of customers served be used as the basis for the expense calculation of expenses directly related to customer numbers. The conclusion regarding allocations in *In re Union Electric, supra*, are inapplicable to the current case. In this case, the proposed allocation has the effect of illegally discriminating against Joplin ratepayers by

increasing the burden upon Joplin ratepayers while reducing the burden on ratepayers in other districts without any explanation or reason. For that reason, the Joint Recommendation's allocation method should be rejected and Joplin's revenue requirement should be reduced by the amount reflected in its schedule previously submitted to this Commission.

### **CONCLUSION**

Chapter 393, RSMo, mandates that this Commission not unduly discriminate against any person in the setting of rates for water utilities. The current Proposed Joint Stipulation would discriminate against the Joplin ratepayers in an undue and unfair manner in violation of Section 393.140, RSMo 2000.

The allocation factors proposed in the Joint Recommendation (supported solely by Staff's witness Rackers), are unjust, unreasonable, unduly discriminatory and have no rational basis. Such allocation factors are unsupported by competent evidence. They should be rejected and the allocation methods presented by Joplin witness Jones, supported by Company witnesses Grubb and Petry, should be adopted by this Commission. The net effect of such change is reflected in Exhibit JOP-2, Spreadsheet E, filed with this Commission. The rates reflected in JOP-2, Spreadsheet E, should be adopted by this Commission in its resolution of this rate case.

Respectfully submitted,

BLITZ, BARDGETT & DEUTSCH, L.C.

By:

A handwritten signature in cursive script, appearing to read "James B. Deutsch", written over a horizontal line.

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### Certificate of Service

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