

Exhibit No.:
Issues: Rate Design
Witness: James M. Russo
Sponsoring Party: MO PSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: WR-2007-0216
Date Testimony Prepared: July 13, 2007

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

JAMES M. RUSSO

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2007-0216

**Jefferson City, Missouri
July 2007**

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

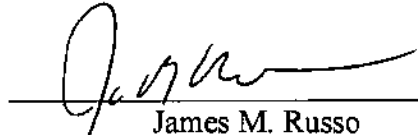
In the Matter of Missouri-American Water)
Company's request for Authority to)
Implement a General Rate Increase for)
Water Service provided in Missouri)
Service Areas)

Case No. WR-2007-0216

AFFIDAVIT OF JAMES M. RUSSO

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James M. Russo, of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 3 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

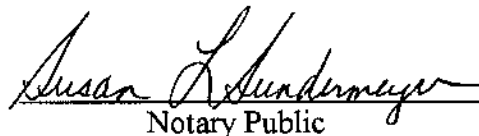


James M. Russo

Subscribed and sworn to before me this 9th day of July, 2007.



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086



Notary Public

My commission expires 9-21-10

REBUTTAL TESTIMONY
OF
JAMES M. RUSSO
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2007-0216

Q. Please state your name and business address.

A. James M. Russo, P. O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same James M. Russo who filed Direct Testimony in Case No. WR-2007-0216?

A. Yes, I am.

Q. What is the purpose of your Rebuttal Testimony?

A. The purpose of my Rebuttal Testimony is to rebut portions of the Direct Testimony of Donald E. Johnstone.

Q. Does the Staff agree with Mr. Johnstone's volumetric rate design for the City of Saint Joseph?

A. The Staff finds the proposed rate design offered by Mr. Johnstone an interesting concept. Generally speaking, the Staff agrees with the concept presented in the first step, but the Staff does not agree with the methodology used in the second step.

Q. Please elaborate on your statement that the Staff generally agrees with the concept in the first step.

A. The Staff believes the first step of computing a weighted average of the existing rates for each usage block, which would result in a single set of usage rates for all customer classes, could be an acceptable alternative to how the current rates are presently

1 calculated. In fact, this approach is similar to the methodology the Staff uses in the
2 computation of rates for many of the small water companies that the Commission regulates.
3 In addition, this methodology is similar to the Staff's proposed rate design; with the exception
4 that the Staff's proposed rate design is a single commodity rate for each customer class.
5 Schedule 1 attached to this Rebuttal Testimony shows the single commodity rate and the
6 effect on the different customer classes based on current revenues.

7 Q. Please elaborate on your statement that the Staff does not agree with the
8 second step of Mr. Johnstone's methodology.

9 A. The Staff does not agree with Mr. Johnstone's adjustment of the third and
10 fourth blocks, nor with the way he allocated the resulting shortfall revenue to the first and
11 second blocks. The Staff's understanding of the second step is that Mr. Johnstone used the
12 existing third block of the industrial rates and reduced the existing tail block by 5.1%. The
13 shortfall in revenues was then added to the first and second blocks and the proposed
14 commodity rates were adjusted, with approximately 96.3% of this revenue shortfall being
15 added to the first block. In the Staff's opinion, the results of this approach place an undue
16 burden of the revenue shift into the first block – which just happens to be predominately the
17 residential customers. If the Commission is to consider this proposed rate design, the Staff
18 believes that either the results generated from using only the first step should be used, or, if
19 step two is used, then the remaining revenue shortfall should be allocated proportionately
20 between the first two blocks. Schedule 2 attached to this Rebuttal Testimony shows this
21 allocation to the volumetric rates and the impact on the customer classes.

22 Q. Did Mr. Johnstone provide any explanation or supporting documentation for
23 his proposed rate design?

Rebuttal Testimony of
James M. Russo

1 A. No. Mr. Johnstone did not explain this in his direct testimony, nor did he
2 provide any supporting documentation to the Staff at the time of filing on why he chose not to
3 change the industrial third block, why he decided to randomly reduce the tail block by 5.1%,
4 or why he placed a mere 3.7% of the revenues required to maintain the current revenue levels
5 in the second block. The Staff notes that the results of his methodology benefit the customers
6 he represents with a decrease in current rates of 7.4%.

7 Q. Does the Staff have an opinion regarding the straight fixed-variable rate design
8 methodology discussed by Mr. Johnstone?

9 A. The Staff is not opposed to considering a straight fixed-variable rate design
10 methodology, so long as it is based on the recovery of the proper costs. Some of the costs the
11 Staff would want to see included are the costs associated with source of supply such as wells
12 and springs, some of the improvements which may include storage and maintenance and labor
13 related to these costs. The Staff does not believe this approach is well enough developed to
14 be considered in this case, but the Staff is willing to consider this approach in the context of
15 MAWC's next rate case.

16 Q. Does the Staff agree that the "Triumph rate" referenced by Mr. Johnstone
17 would be the correct volumetric rate to be set for a straight fixed-variable rate design
18 methodology?

19 A. No. The "Triumph rate" referenced by Mr. Johnstone is a special contract rate
20 established under the alternative incentive provisions of the Company's economic
21 development rider and does not include all of the costs that the Staff believes should be
22 included in a straight fixed-variable cost of service based rate.

23 Q. Does this conclude your Rebuttal Testimony?

24 A. Yes, it does.

Schedule 1

Rebuttal Testimony
of James M. Russo

Case No. WR-2007-0216

Effect of Single Commodity Rate on
Revenues Generated at Current Rates

Commodity Rate	\$2.6635
<u>Customer Class</u>	<u>Change in Revenues</u>
Residential	-13.51%
Commercial	-6.70%
Industrial	23.48%
Other Public Authority	6.39%
Other Water Utilities	16.97%

Schedule 2

Rebuttal Testimony
of James M. Russo

Case No. WR-2007-0216

Effect of Proportional Allocation of Revenue
Shortfall Between Block 1 and Block 2

<u>Rate Block</u>	<u>Rate</u>	<u>Customer Class</u>	<u>Change in Revenues</u>
First Block	\$3.1586	Residential	2.34%
Second Block	\$3.1586	Commercial	7.88%
Third Block	\$1.7151	Industrial	-0.75%
Fourth Block	\$1.3296	Other Public Authority	5.69%
		Other Water Utilities	-17.76%