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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

JAMES M. RUSSO

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2008-0311

**Jefferson City, Missouri
September 2008**

Notary Public

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Q. Does Staff agree with Mr. Johnstone's acceptance of the customer charge as proposed by Missouri-American Water Company?

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1 A. No, the Staff is not in agreement with Mr. Johnstone's acceptance of the
2 customer charge as proposed by MAWC. I will discuss this further in my Rebuttal Testimony
3 of Company witness Edward J. Grubb.

4 Q. Did Mr. Johnstone develop rates for the St. Joseph district?

5 A. Yes. He developed a four block structure for the industrial customers and a
6 different four block structure for the non-industrial customers.

7 Q. Is Staff in agreement with Mr. Johnstone's rates for the St. Joseph district?

8 A. No.

9 Q. Did Mr. Johnstone provide any explanation or supporting documentation for
10 his proposed volumetric block rate design?

11 A. No. Mr. Johnstone did not explain in his direct testimony nor did he provide
12 any supporting documentation to Staff at the time of filing on his design of the volumetric
13 blocks for the industrial class and non-industrial classes.

14 Q. Did Mr. Johnstone provide any explanation or supporting documentation on
15 how he calculated his proposed reduction in the major customer classes?

16 A. Mr. Johnstone did not provide any supporting documentation detailing the
17 17% reduction in the industrial class, 0.4% reduction in the residential class and the 17.9%
18 reduction in the sale for resale class.

19 **Michael Gorman**

20 Q. Does Staff agree with Mr. Gorman's removal of purchased power expenses
21 from Factor 1 and including them in Factor 6?

22 A. Staff does not agree with Mr. Gorman's removal of purchased power expenses
23 from Factor 1 and including them in Factor 6. Staff agrees that AmerenUE's commercial

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1 rates in the St. Louis Metro District have energy charges that vary by summer and winter
2 period and that the rates have optional time-of-day adjustments.

3 Mr. Gorman states in his Direct Testimony that demand costs are based on the
4 highest power demand usage in a month. Mr. Gorman further states the demand component
5 of purchased power expenses does not, “vary with the amount of water consumed,” but rather
6 varies with peak day and peak hour power consumption. The actual language located on the
7 2nd revised sheet no. 67.2, titled Service Classification No. 11 (M) Large Primary Service
8 Rate (Cont’d), section 5 Billing Demand of AmerenUE’s tariff states:

9 The billing demand in any month will be the highest demand
10 established during peak hours or 50% of the highest demand
11 established during off-peak hours, whichever is highest during
12 the month, but in no event less than 5000kw.

13 Staff does not believe there is a direct correlation between the amount of water
14 consumed and peak day and peak hour power consumption. Rather, Staff believes that the
15 demand component of purchased power may vary with the amount of water consumed. For
16 example, residential customer’s high usage may be during off-peak hours such as week-ends
17 and holidays. Furthermore, Staff believes that an in-depth analytical review of water
18 consumption by hour and purchased power by hour would need to be completed before Staff
19 would consider treating purchased power differently from the traditional method in the base-
20 extra capacity method.

21 Q. Does Staff agree with Mr. Gorman’s allocation of small main costs between
22 customer classes?

23 A. No, Staff is not in agreement with Mr. Gorman’s allocation of small main costs
24 between customer classes. I will discuss this further in my Rebuttal Testimony of Company
25 witness Paul R. Herbert.

Barbara A. Meisenheimer

Q. Does Staff agree with the Office of the Public Counsel's position stated on page 3 of Ms. Meisenheimer's direct testimony of moving rates toward eliminating subsidies and moving districts toward cost recovery?

A. Staff believes rates should be set for each district that allows the recovery of the districts cost of service whenever possible. In addition, Staff believes in order to avoid rate shock it necessary to continue the subsidies at a lesser amount than the agreement in Case No. WR-2007-0216 for the Brunswick water district and the Warren County and Cedar Hills sewer districts.

Q. Does Staff agree with Ms. Meisenheimer's reduction in the allocation of the cost of smaller mains to the customers in the Joplin, St. Joseph and St. Louis districts?

A. No, Staff is not in agreement with Ms. Meisenheimer's allocation of small main costs between customer classes. I will discuss this further in my Rebuttal Testimony of Company witness Paul R. Herbert.

Edward J. Grubb

Q. Does Staff agree with the merging of the rates of the St. Louis, St. Charles and Warren County water districts (merged district)?

A. No. Staff believes the merging of the St. Louis, St. Charles and Warren County water districts would be moving away from district specific rates. In addition, the Warren County district is a stand alone system that, other than "shared" personnel, has its own distinct costs to operate.

Q. Does Staff agree with MAWC's proposed uniform customer charge for all districts?

1 A. No. Staff believes that a uniform customer charge will not properly allocate
2 the meter, services and billing and collection costs typically associated with the customer
3 charge portion of a customer's bill. Staff is concerned how any surplus or deficiency in the
4 Cost-of-Service (COS) calculated customer charge is allocated to the other customer classes
5 within a specific district when using a uniform customer charge. Staff wonders what the
6 impact would be on individual customers bills assuming any surplus or deficiency would flow
7 thru to the commodity charge.

8 Finally, Staff also believes that a uniform customer charge would give the
9 illusion that Staff no longer supports district specific cost of service rate design.

10 Staff's position stated above also applies to Staff's opposition to Mr.
11 Johnstone's position on a uniform customer charge.

12 Q. Does Staff agree with MAWC's proposed commodity rate block design?

13 A. Staff is in partial agreement with MAWC's proposed commodity rate block
14 design. Staff has recommended uniform block rates for all customer classes in all districts.
15 The Company is recommending a one block rate structure for the Residential class. Staff is in
16 agreement with the Company position to the extent that this one block rate structure is based
17 on the CCOS study for each district.

18 Staff is not in agreement with MAWC's proposed two to three block or
19 MAWC's proposed two to four block rate structures for the non-residential customer classes.
20 However, as an alternative, Staff finds the Company's proposed two and three rate blocks
21 regardless of the stated reason, as a positive movement toward Staff's position of a single
22 block structure.

23 Q. Does the Staff agree with MAWC's revenue contributions to other districts?

1 A. Staff agrees with the continued subsidization of the Brunswick water district
2 and the Warren County and Cedar Hills sewer districts. However, Staff is not in agreement
3 with the subsidization of the Parkville water district. The result of Staff's filed CCOS study
4 and the proposed rate design indicate modest rate revenue reductions of 2% to 20% for other
5 public authority and Industrial class customers and a modest increase of 6% to 8% for
6 commercial and residential customers. The sale for resale customer class has the largest
7 recommended increase of approximately 52%.

8 **Paul R. Herbert**

9 Q. Does Staff have an opinion on the purpose and methodology of Mr. Herbert's
10 CCOS study?

11 A. Staff believes Mr. Herbert performed his CCOS study for each of the existing
12 customer classes and the proposed merged district based on the costs for each district. Also,
13 except for a few instances, his allocations of costs to customer classes are consistent with the
14 base-extra capacity method as described in the AWWA M1 Manual.

15 Q. Does Staff agree with Mr. Herbert's modification of Factor 4 for some large
16 customers in the Joplin, St. Joseph and St. Louis districts?

17 A. No, Staff does not agree with Mr. Herbert's modification of Factor 4. If
18 certain customers within a class of customers have different usage characteristics from the
19 other customers within that customer class, these customers should be included in a sub-group
20 of customers that recognize they have different cost responsibilities from other customers in
21 the classification. The AWWA M1 Manual states on page 64:

22 ...Similarly, the industrial customer group may be
23 subdivided into small industry, large industry, and special, the
24 latter typified by a petroleum industry.
25

1 Mr. Herbert did not perform a class redesign of the industrial customers that
2 would allocate costs to these sub-groups using the base-extra capacity method. Instead, he
3 partially eliminated the cost from the existing industrial customer class as a whole. The
4 result of not redesigning the class is combining customers whose water usage characteristics
5 are different enough that Mr. Herbert has differentiated these customers from other customers
6 in the existing class in his CCOS study. Different COS for the two classes of differentiated
7 services needs to be maintained to assure appropriate recovery from each differentiated
8 customer class.

9 Mr. Herbert stated that the four largest industrial accounts and all sale for
10 resale accounts were excluded in the development of Factor 4. Again, if certain
11 characteristics of this group are considered it may be appropriate to create a sub-group of
12 these customers eliminating the allocation of smaller main costs in the base-extra capacity
13 method of cost allocation to customers. However, it is equally important to point out that if
14 some of these industrial customers and sale for resale customers are located on the outskirts of
15 the districts' distribution system, although they are not using the small T & D mains, they
16 could be using the larger T & D mains at much greater than the average length of large T & D
17 main embedded in the base-extra capacity allocation methodology.

18 Staff believes any modification of the factors based on assumptions of usage
19 need to be studied to see if it is more appropriate to create a new customer classification for
20 the customers causing the modification.

21 Staff's position above also applies to Staff's opposition to Mr. Gorman's
22 treatment of these industrial customers in the St. Louis district and Ms. Meisenheimer's
23 treatment of industrial customers in the Joplin, Saint Joseph and St. Louis districts.

1 Q. Does Staff agree with Mr. Herbert's allocation of operation and maintenance
2 expenses related to transmission and distribution mains (T & D or Factor 7)?

3 A. Mr. Herbert states the following on page 6 of his Direct Testimony regarding
4 the allocation of operation and maintenance expenses related to T & D mains (Factor 7):

5 For operation and maintenance of mains, the relative
6 weightings of Factor 3 (maximum day and fire) and Factor 4
7 (maximum hour) were based on the footage of transmission and
8 distribution mains. Generally for cost allocation purposes,
9 mains larger than 10-inch were classified as serving a
10 transmission function and mains 10-inch and smaller were
11 classified as serving a distribution function. The development
12 of this weighted factor is referenced as Factor 7.
13

14 Staff believes that the operations and maintenance costs of T & D mains are
15 not a function of the footage of these two groups. Mr. Herbert's per foot weighting assumes
16 that it takes the same weighted portion of cost to operate and maintain a foot of main
17 regardless of the size of that main. In other words, Mr. Herbert's methodology says it costs
18 the same to operate and maintain a 36" main as it does for a 4" main. Staff believes without
19 direct allocation of T & D mains operation & maintenance costs to the two different large and
20 small main groupings, it makes more sense that the operation and maintenance cost
21 allocations be weighted by the net plant investment of the two different sized mains,
22 especially in light of the amount invested in the T & D mains.

23 Q. Does Staff agree with Mr. Herbert's maximum-day extra capacity and the
24 maximum-hour extra capacity factors used to perform the classification portion of the
25 allocation factors 2, 3 and 4?

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1 A. Staff does not agree with Mr. Herbert's Sale for Resale factors of 0.6 for the
2 maximum-day extra capacity factor and the 2.0 for the maximum-hour extra capacity factor.
3 Staff believes the factors are significantly understated.

4 Q. Please explain why Staff believes that Mr. Herbert's class allocation factors for
5 "sale for resale" customers are understated.

6 A. The factor Mr. Herbert uses for the residential class of customers for the
7 maximum-day extra capacity factor is 1.0 and for the maximum-hour extra capacity factor is
8 3.5. The factors Mr. Herbert uses for the commercial and other public authority classes for
9 the maximum-day extra capacity factor is 0.8 and for the maximum-hour extra capacity factor
10 is 2.8. The factor Mr. Herbert uses for the industrial class of customers for the maximum-day
11 extra capacity factor is 0.5 and for the maximum-hour extra capacity factor is 1.5.

12 Staff believes the usage characteristics of the sale for resale customers are
13 similar to the usage characteristics of the residential customer class. Water is delivered to the
14 residential and sale for resale customers through the T & D system to the end-user receiving
15 the water, and, the end-user is essentially the same type of customer. The use of this factor by
16 Mr. Herbert assigns demand characteristics to the sale for resale customers that are below the
17 commercial and other public authority classes and close to the demands of the industrial
18 customers. Staff believes that the maximum-day demand for the sale for resale class is closer
19 and more similar to the residential class instead of the industrial class and the factor should be
20 closer to 1.0. However, Staff used a factor of 0.9 because of possible commercial type usage
21 in this class

22 Staff also disagrees with Mr. Herbert's use of his maximum-hour extra
23 capacity factor for the sale for resale class. Mr. Herbert uses a factor of 3.5 for the residential

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1 class, a factor of 2.8 for the commercial and other public authority classes, a factor of 1.5 for
2 the industrial class and a factor of 2.0 for the sale for resale class.

3 Staff believes the usage characteristics of maximum-hour demand of the sale
4 for resale class of customers is similar to residential customers. Staff does not believe this
5 usage is similar to that of the industrial class. Staff used a maximum-hour factor of 3.2 for the
6 sale for resale customer class to represent the demand closer to what the sale for resale
7 residential end-users would actually be using. Again, Staff did not make the sale for resale
8 factor the same as Staff's residential class factor because of the possible commercial type
9 usage on the sale for resale classes distribution system.

10 Q. Does this conclude your Rebuttal Testimony?

11 A. Yes, it does.