

Exhibit No.:
Issues: Rate Design
Witness: James M. Russo
Sponsoring Party: MO PSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: WR-2007-0216
Date Testimony Prepared: July 27, 2007

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL 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**

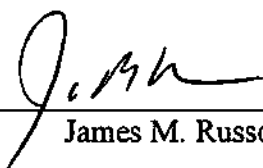
In the Matter of Missouri-American Water)
Company's request for Authority to)
Implement a General Rate Increase for)
Water Service provided in Missouri)
Service Areas)

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 Surrebuttal Testimony in question and answer form, consisting of 6 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal 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 30th day of July, 2007.



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942066



Notary Public

My commission expires 9-21-10

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SURREBUTTAL TESTIMONY

OF

JAMES M. RUSSO

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2007-0216

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SURREBUTTAL 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 and Rebuttal Testimony in Case No. WR-2007-0216?

A. Yes I am.

Q. What is the purpose of your Surrebuttal Testimony?

A. The purpose of my Surrebuttal Testimony is to rebut portions of the Rebuttal Testimony of Donald E. Johnstone, Michael Gorman and Paul R. Herbert.

Donald E. Johnstone

Q. Do you agree with Mr. Johnstone's statement on page 2, lines 6 thru 8 of his Rebuttal Testimony where he states "Second, as compared to presently effective rates in these districts Staff proposes to change the customer charges substantially in ways that are not logical and not consistent with costs."?

A. No. The customer charges were developed based on the allocation of the costs associated with the Saint Joseph District in Staff's Class Cost of Service (CCOS) study. Mr. Johnstone has not presented any evidence other than general statements, such as above, indicating his dissatisfaction with the results of Staff's CCOS. He has not questioned the accuracy of any of the allocation factors used by Staff in the CCOS, nor has he offered any

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James M. Russo

1 alternatives to any of the allocation factors used by Staff for the allocation of costs in the Saint
2 Joseph District.

3 Q. Please respond to Mr. Johnstone's statement on page 2, lines 6 and 15 of his
4 Rebuttal Testimony that the rates were "presently effective rates".

5 A. Staff is unable to reconcile the differences in testimony filed by Mr. Johnstone.
6 He states in his Rebuttal Testimony that the current Saint Joseph rates are presently effective
7 and yet on page 2, lines 12 thru 14 of his Direct Testimony states the rates are highly
8 discriminatory. Mr. Johnstone repeats that allegation on page 4, lines 16 thru 17 of his Direct
9 Testimony.

10 Q. Please respond to Mr. Johnstones statement in his Rebuttal Testimony on page
11 4, lines 15 thru 18 concerning Staff's proposal to eliminate the current declining block
12 structure in the existing rate design used in the Saint Joseph district.

13 A. Staff is proposing the elimination of the declining block structure and is
14 proposing one rate for each customer class. The existing declining block rates result in the
15 small users in a customer class paying much more of the costs to provide their water than
16 large customers pay. Staff's proposed rate structure actually lowers the rate in the first block
17 for all the customers except the residential customers. The amount of the increase in the first
18 block of the residential customers is approximately 10 percentage points lower than the
19 overall proposed increase for the residential customer class.

20 Q. Please respond to Mr. Johnstones statement in his Rebuttal Testimony on page
21 4, lines 19 thru 21 concerning Staff's proposed changes in the customer charges applicable to
22 larger customers.

1 A. Staff's CCOS allocated the costs associated with meters, services and billing
2 and collecting to the customer charge. The customer charge is based on a 5/8" meter and then
3 factored up for larger meters to a 5/8" meter equivalent. The results of Staff's CCOS
4 increased the customer charge for customers with a 5/8", 3/4", 1" and 3" meter size and
5 decreased the customer charge for customers with a 1 1/2", 2" and 4" and larger meter size.

6 The reduction of the customer charge in these meter sizes does not automatically raise
7 the volumetric rates. The volumetric rate was determined by dividing the costs allocated to
8 each customer class in Staff's CCOS by the annualized volume of water. The results for the
9 Saint Joseph District indicate the costs for each district were greater than the amount of
10 annualized volume in this rate case than they were in the rate case in which the existing rates
11 were established.

12 **Michael Gorman**

13 Q. Does Staff agree with Mr. Gorman's Rebuttal Testimony on page 22, lines 6
14 thru 10 that there is an error in the way Staff calculated Factor 1?

15 A. No. Staff believes it is inappropriate to include any usage derived from Rate H
16 and Rate K in the determination of Factor 1. Factor 1 is based on the costs related to the
17 average daily consumption for each customer classification. The commodity rate established
18 for customers of Rate H is a special negotiated rate not dependent upon Factor 1 and does not
19 include all cost items included in the calculation of Factor 1. Any water consumption related
20 to Rate K is included in the average daily consumption for Rate A.

21 Q. Does Staff agree with Mr. Gorman's Rebuttal Testimony on page 23, line 12
22 and lines 15 thru 22 allocating the purchased water expense?

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1 A. No. Purchased water is an expense that varies directly with water usage and
2 should be assigned directly to the base cost component. Base costs in the base-extra capacity
3 allocation method are the costs associated with providing average usage. Base costs should
4 include demand costs that will be incurred to provide the base level of usage and should be
5 allocated on the base usage allocator of Factor 1. Any portion of purchased water expense
6 that may be applicable to extra-capacity allocation would be limited to the incremental
7 amount of billed demand over the base-related demand that must be supplied over the base
8 usage amount. Absent purchased water expense data needed to allocate the incremental
9 demand over base capacity, I used the Factor 1 allocator for all purchased water costs.

10 Q. Does Staff agree with Mr. Gorman's Rebuttal Testimony on page 23, lines 13
11 thru 14 and page 24, lines 1 thru 22?

12 A. No. Mr. Gorman believes the allocation of power production and purchased
13 fuel/power expense to Factor 1 is incorrect and that these expenses should be allocated to
14 Factor 6.

15 Purchased power bills are billed on a customer charge basis, a demand charge
16 basis and an energy charge basis. Purchased power demand charges are not directly tied to
17 water demand in the base-extra capacity allocation method. Purchased power demand
18 charges are charged for whatever load factor the water utility incurs. As stated earlier, base
19 costs in the base-extra capacity allocation method are the costs associated with providing
20 average usage. Base costs should include demand costs that will be incurred to provide the
21 base level of usage and should be allocated on the base usage allocator of Factor 1. Any
22 portion of a purchased power demand charge that may be applicable to extra-capacity
23 allocation would be limited to the incremental amount of billed demand over the base-related

1 demand that must be supplied over the base usage amount. Absent purchased power billing
2 demand data needed to allocate the incremental demand over base capacity, I used the Factor
3 1 allocator for all purchased power costs.

4 Mr. Gorman states that Staff should use Factor 6 because Factor 6 recognizes
5 maximum day, maximum hour and fire flow demands. Staff does not agree because pumping
6 costs are not sized. Pumping costs are what they are. Each pump has specific functions and
7 costs associated with it.

8 **Paul R. Herbert**

9 Q. Please respond to Mr. Herbert's allocation of distribution mains described in
10 his Rebuttal Testimony beginning on page 12, line 21 and ending on page 13, line 23.

11 A. Mr. Herbert uses a small main adjustment that impacts the results of the Saint
12 Louis, Joplin and Saint Joseph districts. He generally classifies mains larger than 10-inch as
13 serving the transmission function and mains 10-inch and smaller as serving the distribution
14 function. Mr. Herbert then allocates transmission and distribution operation and maintenance
15 expenses to maximum-day or maximum-hour functional factors, respectively, based on the
16 length of pipe contained in each of these inaccurately titled categories.

17 Q. Please explain why you consider the titles to be inaccurate.

18 A. I believe the classification of mains as either transmission or distribution based
19 on their size is inaccurate. All transmission and distribution mains are used to transmit and
20 distribute water to customers. The distinction between major transmission lines and local
21 distribution lines is gray rather than distinct. In small utilities, a 6"-main may be considered a
22 part of the major transmission system. In a large utility, a 12"-main may be considered a local

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1 | distribution line. The main point in the distinction between transmission and distribution is
2 | based on function and is not based on size.

3 | Q. Does this conclude your Surrebuttal Testimony?

4 | A. Yes, it does.