

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

In the Matter of Missouri-American Water Company's)
Tariff to Revise Water and Sewer Rate Schedules)

Case No. WR-2007-0216, et al.

PREHEARING BRIEF OF ST. JOSEPH PUBLIC WATER SUPPLY DISTRICTS

COME NOW Public Water Supply District Nos. 1 and 2 of Andrew County, and Public Water Supply District No. 1 of DeKalb County, ("Water Districts") and, pursuant to the Order Granting Extension Time To File The Final List Of Issues, List of Witnesses, Order Of Opening Statements, Final Reconciliation, Position Statements (Optional) And Prehearing Briefs issued on July 30, 2007, states their position on the issues in this matter:

INTRODUCTION

The Water Districts are not-for-profit political subdivisions that serve rural customers in areas outside of St. Joseph, Missouri. Although these Water Districts are among MAWC's larger customers, they are, in reality, representatives of their rural residential customers--since any increase in the cost of water must eventually be passed along to the Water Districts' rural customers.

As a result of the Commission's decision in the 2000 Missouri-American Water Company rate case (Case No. WR-2000-281), the Water Districts' rates in the St. Joseph District increased by approximately 239% above previously approved rates, or approximately \$1.5 million annually. The 239% rate increase approved in the 2000 rate case was unprecedented in sheer magnitude, and has been difficult for the Water Districts' customers to understand ever since that decision was issued.

The Water Districts continue to believe it was an unfortunate decision for the majority of the Commissioners in Case No. WR-2000-281 to abandon Single-Tariff pricing in favor of

District-specific pricing. While some moderate progress was made in the 2003 MAWC rate case in reducing the rates of the Sales For Resale Class, this class continues to have the highest rates in the St. Joseph District.¹

In this case, the Water Districts are requesting that the Commission re-consider two aspects of the rate design that was adopted in the 2000 rate case. Since the Water Districts are essentially wholesale customers, the Water Districts take our water supplies, for the most part, directly from the mains of MAWC. The Water Districts themselves provide the distribution system to our customers beyond the MAWC meters. Unfortunately, in the 2000 rate case, we believe too much of MAWC's distribution system was allocated to the Water Districts. The Water Districts should not be responsible for also paying for MAWC's distribution system that we don't use. On this issue, the Water Districts support the position of MAWC witness Herbert on the proper allocation of mains and distribution plant. Staff's and Public Counsel's methodology allocates too much of the mains and distribution plant to the Water Districts.

The Water Districts are also very concerned about the present rate design in the St. Joseph District. Under the present rate design, the Sales For Resale Class are paying, by far the highest rates, even though they are wholesale customers that receive service on the transmission lines, and do not utilize the distribution system. For example, each of the rate steps that apply to the Sales for Resale class are approximately 83% higher than the residential class in the St. Joseph District, even the Water Districts themselves serve almost entirely residential customers.

The Water Districts support the position of Ag Processing witness Don Johnstone that there should be a single rate declining block rate design in the St. Joseph District that applies to all customers, including the Sales For Resale class.

¹ In a subsequent 2003 rate case, Case No. WR-2003-0500, the Commission approved a Rate Design Stipulation And Agreement which resulted in a 14.57% rate reduction for the Sales-for-Resale class in the St. Joseph District.

The Water Districts are also concerned about changes that are being proposed to the rate structure for the Sales For Resale Class in St. Joseph. MAWC's rate structure for our class currently consists of a declining block rate structure. With a declining block rate structure, there are volume discounts built into the rate structure so that larger users receive a volume discount to reflect economies of scale. The Staff is proposing to eliminate all volume discounts, and instead replace the declining block rate structure with a flat rate structure. Since the Water Districts are large volume users, the Water Districts take much of the water from the last blocks of the rate schedule. Staff is proposing to increase that last block of the rate structure that applies to the Water Districts by 79.85%!

In summary, the Water Districts request that the Commission carefully consider the impact of the changes in rate structure when it decides this case. The Water Districts in the St. Joseph area have already absorbed an unprecedented increase as a result of the 2000 rate case. As the Commission reviews the various rate proposals in this case, the Water Districts respectfully request that the Commission keep in mind the 239% rate increase that the Water Districts in St. Joseph have already absorbed as a result of the 2000 rate case.

While the Water Districts have not taken a position on most of the revenue requirement issues in this proceeding, the Water Districts intend to participate primarily in the Rate Design/Cost of Service portion of the case. The Water Districts' positions on the list of contested issues related to rate design/cost of service issues are included below:

I. LIST OF CONTESTED ISSUES AND POSITION STATEMENTS

RATE DESIGN/COST OF SERVICE

Rate Design/Cost-of-Service: How should any revenue increase for MAWC that results from this case be implemented in rates? .

WATER DISTRICTS' POSITION:

THE WATER DISTRICTS SUPPORT THE POSITION OF MAWC THAT ANY REVENUE INCREASE THAT RESULTS FROM THIS CASE SHOULD BE IMPLEMENTED ON AN EQUAL PERCENTAGE, ACROSS-THE-BOARD BASIS AMONG THE VARIOUS DISTRICTS.

District Pricing v. Other: What is the appropriate way to allocate costs among MAWC's various operating districts?

WATER DISTRICTS' POSITION:

WHILE THE WATER DISTRICTS CONTINUE TO BELIEVE THAT SINGLE-TARIFF PRICING IS AN APPROPRIATE RATEMAKING METHODOLOGY, IN LIGHT OF THE LARGE RATE INCREASE TO THE ST. JOSEPH DISTRICT IN THE 2000 RATE CASE, THE WATER DISTRICTS BELIEVE THAT THE COMMISSION SHOULD ADOPT THE METHODOLOGY THAT ALLOCATES THE LEAST COSTS TO THE ST. JOSEPH DISTRICT, CONSISTENT WITH THE EVIDENCE.

IN THIS CASE, THE ST. JOSEPH DISTRICT WATER DISTRICTS BELIEVE THAT THE FAIREST AND MOST EQUITABLE METHOD OF IMPLEMENTING THE SUBSTANTIAL RATE INCREASE THAT MAY RESULT IN THIS CASE IS BY AN EQUAL PERCENTAGE INCREASE AMONG ALL OF THE DISTRICTS, NOTWITHSTANDING THE RESULTS OF ANY DISTRICT-SPECIFIC COST STUDY.

District Specific Costs: What are the costs of each district?

WATER DISTRICTS' POSITION:

THE WATER DISTRICTS RESERVE THE RIGHT TO INQUIRE INTO THIS ISSUE AND ADVOCATE A POSITION AT THE CONCLUSION OF THE HEARINGS IN THIS MATTER.

Allocations: What is the appropriate basis upon which to allocate MAWC Corporate Administrative and General Expenses to the various districts?"

WATER DISTRICTS' POSITION:

THE WATER DISTRICTS RESERVE THE RIGHT TO INQUIRE INTO THIS ISSUE AND ADVOCATE A POSITION AT THE CONCLUSION OF THE HEARINGS IN THIS MATTER.

District Specific Revenues: What are the normalized revenues associated with each district?

WATER DISTRICTS' POSITION:

THE WATER DISTRICTS RESERVE THE RIGHT TO INQUIRE INTO THIS ISSUE AND ADVOCATE A POSITION AT THE CONCLUSION OF THE HEARINGS IN THIS MATTER.

Joplin Overcharge (WR-2000-281 Appeal): Should an adjustment be made related to the appeal of Commission Case No. WR-2000-281? If so, what adjustment should be made?

WATER DISTRICTS' POSITON:

NO ADJUSTMENT SHOULD BE MADE RELATED TO THE APPEAL OF THE CITY OF JOPLIN OF CASE NO. WR-2000-281. THE COMMISSION HAS ALREADY SPECIFICALLY DECLINED TO CONSOLIDATE THE REMAND OF CASE NO. WR-2000-281 WITH THIS PROCEEDING. IN ANY EVENT, IT WOULD BE UNLAWFUL, RETROACTIVE RATEMAKING FOR THE COMMISSION TO MAKE AN ADJUSTMENT THAT REDUCES THE PAST RATES OF JOPLIN, AND REQUIRES OTHER CUSTOMERS TO INCREASE THEIR RESPECTIVE RATES TO PAY FOR THE ADJUSTMENT.

Class Identification/Cost of Service: What is the appropriate way in which to identify classes and to allocate costs among customer classes within each operating district?

WATER DISTRICTS' POSITION:

THE WATER DISTRICTS SUPPORT THE POSITION OF AG PROCESSING WITNESS DON JOHNSTONE THAT THERE SHOULD BE A SINGLE RATE DESIGN FOR THE ST. JOSEPH DISTRICT.

THE WATER DISTRICTS BELIEVE THAT THERE SHOULD BE A SINGLE DECLINING BLOCK RATE STRUCTURE THAT APPLIES TO ALL CUSTOMERS IN THE ST. JOSEPH DISTRICT.

AS DISCUSSED ABOVE, THE WATER DISTRICTS BELIEVE THAT THE COMMISSION'S ADOPTION OF THE STAFF'S METHODOLOGY IN THE 2000 MAWC RATE CASE RESULTED IN AN IMPROPER ALLOCATION TO THE WATER DISTRICTS OF MAINS AND DISTRIBUTION PLANT. IN THIS PROCEEDING, THE WATER DISTRICTS BELIEVE THAT THE COMPANY'S METHODOLOGY FOR ALLOCATING THE COSTS OF MAINS AND DISTRIBUTION SYSTEM MORE PROPERLY ALLOCATES COSTS TO THE WATER DISTRICTS.

THE WATER DISTRICTS, HOWEVER, RESERVE THE RIGHT TO INQUIRE INTO ALL ASPECTS OF THE CLASS IDENTIFICATION ISSUE AND THE METHODS OF ALLOCATION OF COSTS TO THE CUSTOMER CLASSES WITHIN EACH DISTRICT.

WHEREFORE, having complied with the Commission's order issued on July 30, 2007, the Water Districts respectfully request that the Commission accept its Prehearing Brief, and render a decision in this matter consistent with the position stated herein.

Respectfully submitted,

/s/ James M. Fischer

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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been hand-delivered, emailed or mailed, postage prepaid, this 2nd day of August, 2007, to all counsel of record in this proceeding.

/s/ James M. Fischer

James M. Fischer