

FILED

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**Missouri Public
Service Commission**

Exhibit No.:

Witness:

Type of Exhibit:

Issue:

Sponsoring Parties:

Case No.:

Brian C. Collins

Direct Testimony

Revenue Requirement

Missouri Industrial Energy Consumers

WR-2008-0311

**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 and Sewer Service
Provided in Missouri Service Areas**

Case No. WR-2008-0311

Direct Testimony of

**Brian C. Collins
on Revenue Requirement Issues**

On Behalf of

Missouri Industrial Energy Consumers



**BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000**

August 18, 2008
Project 8980

**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 and Sewer Service)
Provided in Missouri Service Areas)


Case No. WR-2008-0311

STATE OF MISSOURI)
) SS
COUNTY OF ST. LOUIS)

Affidavit of Brian C. Collins

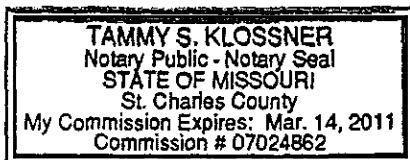
Brian C. Collins, being first duly sworn, on his oath states:

1. My name is Brian C. Collins. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.
2. Attached hereto and made a part hereof for all purposes are my direct testimony and schedules on revenue requirement issues, which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. WR-2008-0311.
3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things they purport to show.



Brian C. Collins

Subscribed and sworn to before me this 18th day of August, 2008.





Notary Public

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

| | | |
|--|---|-----------------------|
| <u>In the Matter of Missouri-American</u> |) | |
| <u>Water Company's Request for</u> |) | |
| <u>Authority to Implement a General Rate</u> |) | Case No. WR-2008-0311 |
| <u>Increase for Water and Sewer Service</u> |) | |
| <u>Provided in Missouri Service Areas</u> |) | |

Direct Testimony of Brian C. Collins

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A My name is Brian C. Collins and my business address is 1215 Fern Ridge Parkway,
3 Suite 208, St. Louis, MO 63141.

4 **Q WHAT IS YOUR OCCUPATION?**

5 A I am an energy advisor and a consultant in the field of public utility regulation and a
6 senior consultant with the firm of Brubaker & Associates, Inc. (BAI).

7 **Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPER-**
8 **IENCE.**

9 A These are set forth in Appendix A to my testimony.

10 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

11 A I am appearing on behalf of the Missouri Industrial Energy Consumers (MIEC).
12 Member companies purchase substantial amounts of water from Missouri-American
13 Water Company (Missouri-American or Company).

Brian C. Collins
Page 1

1 **Q PLEASE SUMMARIZE THE ISSUES YOU WILL ADDRESS IN YOUR TESTIMONY.**

2 **A In this testimony, I will address the following issues concerning the Company's**
3 **proposed revenue requirement for the St. Louis Metro District:**

- 4 1. Proposal for the St. Louis Metro District to provide a revenue subsidy for
5 certain operating districts of the Company.
- 6 2. Proposal to increase tank painting expense.
- 7 3. Proposal to include hydrant painting expense in the St. Louis Metro
8 District.

9 My recommended adjustments to the revenue requirement of the St. Louis Metro
10 District are summarized in Table 1 below:

| Table 1 | |
|--|--|
| <u>Summary of Revenue Adjustments</u> | |
| <u>Adjustment</u> | <u>Amount</u> <u>(000s)</u> |
| Tank Painting Expense | (\$379) |
| Operating District Subsidy | (\$2,029) |
| Hydrant Maintenance Expense | <u>(\$1,417)</u> |
| Total Adjustments | (\$3,825) |

11 **Proposal for the St. Louis Metro District to Provide a Revenue Subsidy**

12 **Q PLEASE DESCRIBE MISSOURI-AMERICAN'S PROPOSAL FOR A REVENUE**
13 **SUBSIDY FOR CERTAIN DISTRICTS.**

14 **A Missouri-American witness Edward J. Grubb's direct testimony at page 27 states that**
15 **the Company has included a revenue contribution, to be provided by the St. Louis**
16 **Metro District, for the Brunswick District, Parkville Water District, Cedar Hill Sewer**
17 **District and Warren County Sewer District in the amounts of \$390,896, \$623,083,**
18 **\$345,572, and \$669,187, respectively. The proposed combined St. Louis Metro**
19 **District annual revenue subsidy would be \$2,028,738.**

1 **Q IS THE PROPOSED REVENUE SUBSIDY PROVIDED BY THE ST. LOUIS METRO**
2 **DISTRICT COST JUSTIFIED?**

3 A No. The Company's proposed rate adjustment in this proceeding is inappropriate and
4 would create an unnecessary and unjustified cost burden on the St. Louis Metro
5 District in order to reduce the rate increase necessary to price other districts at the
6 Company's cost of providing service to those districts. The proposal is discriminatory
7 to the St. Louis Metro District and is inconsistent with the district-specific pricing
8 objective reflected in previous Missouri-American rate cases.

9 **Q WHY IS THE SUBSIDY PROVIDED BY THE ST. LOUIS METRO DISTRICT TO THE**
10 **OTHER COMPANY DISTRICTS INAPPROPRIATE?**

11 A It is inappropriate to include in the St. Louis Metro District revenue requirement
12 subsidies for districts acquired by the Company. The result would be rates too low in
13 the districts receiving the subsidy and excessive in the St. Louis Metro District.

14 Further, the Company's proposal that the St. Louis Metro District subsidize
15 other districts restricts St. Louis area businesses' ability to remain competitive in their
16 own markets and remain viable, ongoing entities. As competition increases on a
17 national and global basis, it is important that businesses are provided just and
18 reasonable rates based on cost of service that reasonably reflects prudent and
19 efficient utility management.

20 **Q WHAT IS THE RESULT OF YOUR PROPOSAL TO ELIMINATE THE SUBSIDY**
21 **PROVIDED BY THE ST. LOUIS METRO DISTRICT?**

22 A Under my proposal, eliminating the subsidy provided by the St. Louis Metro District
23 would reduce the St. Louis Metro District's revenue requirement by \$2,028,738.

1 **Tank Painting Expense**

2 **Q HAS THE COMPANY PROPOSED TO INCREASE ITS TANK PAINTING EXPENSE**
3 **IN THIS CASE?**

4 A Yes. Tank painting expense of \$1,000,000 on a total Company basis is included in
5 current rates and subject to a tracking mechanism approved by the Commission in
6 WR-2007-0216. In the instant rate case, the Company proposes to increase tank
7 painting expense to \$1,600,000 on a total Company basis.

8 **Q HAS THE COMPANY SPENT \$1,000,000 ON TANK PAINTING IN THE TEST**
9 **YEAR ENDING DECEMBER 31, 2007?**

10 A No. The actual amount of tank painting expense that occurred in the test year is
11 \$55,204.¹ Furthermore, this was the total amount spent for 2007.

12 **Q HOW MUCH TANK PAINTING EXPENSE DOES THE COMPANY PLAN TO**
13 **SPEND IN 2008?**

14 A According to the direct testimony of Mr. Frank Kartmann at page 25, the Company
15 plans to spend \$1,000,000 on a total Company basis for tank painting by the true-up
16 date in this case. According to the Company's response to Staff Data Request No.
17 128, approximately \$1,000,000 of tank painting is in progress for 2008.

¹ Company's response to Staff Data Request No. 128.

1 **Q WHY DOES THE COMPANY PROPOSE TO INCREASE TANK PAINTING**
2 **EXPENSE TO \$1,600,000 ON A TOTAL COMPANY BASIS?**

3 **A The Company expects to sign contracts for tank painting work in 2009 that it**
4 **estimates will cost \$1,600,000. However, the Company has not provided sufficient**
5 **evidence to suggest that \$1,600,000 will be an ongoing level of expense.**

6 **Q HAVE CONTRACTS TO SPEND \$1,600,000 ON TANK PAINTING BEEN SIGNED**
7 **BY THE COMPANY?**

8 **A No.**

9 **Q HAS THE COMPANY JUSTIFIED AN INCREASE TO TANK PAINTING EXPENSE?**

10 **A No. Based on the Company's current level of tank painting in progress in 2008, the**
11 **Company has not justified increasing tank painting expense to \$1,600,000 in the**
12 **instant case.**

13 **Q DOES THE FREQUENCY OF MISSOURI-AMERICAN'S RECENT RATE CASES**
14 **REDUCE THE RISK OF RECOVERY OF TANK PAINTING EXPENSE IN EXCESS**
15 **OF \$1,000,000?**

16 **A Yes. Further, since the Company currently has a tracker in place for tank painting**
17 **expense, any future expense above \$1,000,000 will be identifiable for recovery in**
18 **Missouri-American's next rate case.**

19 **Q WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE COMPANY'S**
20 **PROPOSAL TO INCREASE TANK PAINTING EXPENSE?**

21 **A The current amount of tank painting expense is adequate until proven to be**
22 **insufficient. I recommend no increase in tank painting expense unless the increase is**

1 shown to be needed by Missouri-American. My recommendation results in a revenue
2 requirement reduction of \$379,000 for the St. Louis Metro District.

3 **Hydrant Painting Expense**

4 **Q HAS THE COMPANY PROPOSED TO INCLUDE HYDRANT PAINTING EXPENSE**
5 **IN THIS CASE?**

6 **A** Yes. The Company proposes to include \$1,417,000 per year over a three-year
7 period for hydrant painting expense in the St. Louis Metro District.

8 **Q HAS THE COMPANY SPENT \$1,417,000 ON HYDRANT PAINTING IN THE TEST**
9 **YEAR?**

10 **A** No.

11 **Q WHY DOES THE COMPANY PROPOSE TO INCLUDE HYDRANT PAINTING**
12 **EXPENSE IN THE TEST YEAR?**

13 **A** According to the testimony of Mr. Kartmann at page 26, the hydrant painting expense
14 is designed to eliminate from the St. Louis Metro District the lead based paint
15 coatings existing on approximately 17,000 of its fire hydrants.

16 **Q HAVE CONTRACTS TO SPEND \$1,417,000 PER YEAR ON HYDRANT PAINTING**
17 **IN THE ST. LOUIS METRO DISTRICT BEEN SIGNED BY THE COMPANY?**

18 **A** No. According to the Company, it has in fact received only one proposal with respect
19 to hydrant painting.

1 **Q HAS THE COMPANY JUSTIFIED AN INCREASE TO HYDRANT PAINTING**
2 **EXPENSE?**

3 **A No. The Company has not incurred any expense with respect to hydrant painting in**
4 **the test year and has not yet signed contracts to conduct the hydrant painting. In**
5 **addition, the Company has not made a compelling argument that the hydrant painting**
6 **is necessary since it states that it will only have the hydrant painting work performed if**
7 **its projected hydrant painting expense is approved by the Commission prior to the**
8 **work being performed.**

9 **Q DOES THE FREQUENCY OF MISSOURI-AMERICAN'S RECENT RATE CASES**
10 **REDUCE THE RISK OF RECOVERY OF HYDRANT PAINTING EXPENSE IF**
11 **MISSOURI-AMERICAN DOES IN FACT PERFORM THE HYDRANT PAINTING**
12 **PRIOR TO RECEIVING RECOVERY OF THE EXPENSE?**

13 **A Yes.**

14 **Q WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE COMPANY'S**
15 **PROPOSAL TO INCLUDE HYDRANT PAINTING EXPENSE?**

16 **A I recommend that the Commission deny the Company's request to include hydrant**
17 **painting expense in the revenue requirement of the St. Louis Metro District. This**
18 **results in a reduction of \$1,417,000 in the revenue requirement for the St. Louis**
19 **Metro District.**

20 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ON REVENUE**
21 **REQUIREMENT ISSUES?**

22 **A Yes, it does.**

Appendix A

Qualifications of Brian C. Collins

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A Brian C. Collins. My business address is 1215 Fern Ridge Parkway, Suite 208,**
3 **St. Louis, Missouri 63141.**

4 **Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**

5 **A I am a consultant in the field of public utility regulation with the firm of Brubaker &**
6 **Associates, Inc. (BAI), energy, economic and regulatory consultants.**

7 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 **A I graduated from Southern Illinois University Carbondale with a Bachelor of Science**
9 **degree in Electrical Engineering. I also graduated from the University of Illinois at**
10 **Springfield with a Master of Business Administration degree. Prior to joining BAI, I**
11 **was employed by the Illinois Commerce Commission and City Water Light & Power**
12 **(CWLP) in Springfield, IL.**

13 **My responsibilities at the Illinois Commerce Commission included the review**
14 **of the prudence of utilities' fuel costs in fuel adjustment reconciliation cases before**
15 **the Commission. My responsibilities at CWLP included generation and transmission**
16 **system planning. While at CWLP, I completed several thermal and voltage studies in**
17 **support of CWLP's operating and planning decisions. I also performed duties for**
18 **CWLP's Operations Department, including calculating CWLP's monthly cost of**
19 **production. I also determined CWLP's allocation of wholesale purchased power**
20 **costs to retail and wholesale customers for use in the monthly fuel adjustment.**

1 In June 2001, I joined BAI as a Consultant. Since that time, I have
2 participated in the analysis of various utility rate and other matters in several states
3 and before FERC.

4 BAI was formed in April 1995. In the last five years, BAI and its predecessor
5 firm has participated in more than 700 regulatory proceeding in forty states and
6 Canada.

7 BAI provides consulting services in the economic, technical, accounting, and
8 financial aspects of public utility rates and in the acquisition of utility and energy
9 services through RFPs and negotiations, in both regulated and unregulated markets.
10 Our clients include large industrial and institutional customers, some utilities and, on
11 occasion, state regulatory agencies. We also prepare special studies and reports,
12 forecasts, surveys and siting studies, and present seminars on utility-related issues.

13 In general, we are engaged in energy and regulatory consulting, economic
14 analysis and contract negotiation. In addition to our main office in St. Louis, the firm
15 also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

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