

Exhibit No.:
Witness: Michael Gorman
Type of Exhibit: Direct Testimony
Issue: Rate Design
Sponsoring Parties: Missouri Industrial Energy Consumers
Case No.: WR-2007-0216

**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) Case No. WR-2007-0216
Water Service Provided in Missouri)
Service Areas)

Direct Testimony of

**Michael Gorman
on Rate Design Issues**

On Behalf of

Missouri Industrial Energy Consumers

June 12, 2007

Project 8751

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

MIEC
Exhibit No. *2*
Case No(s) *WR-2007-0216*
Date *8-14-07* Rptr *RF*

MIEC-2

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In the Matter of Missouri-American Water
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Water Service Provided in Missouri
Service Areas

Case No. WR-2007-0216

STATE OF MISSOURI)

COUNTY OF ST. LOUIS)

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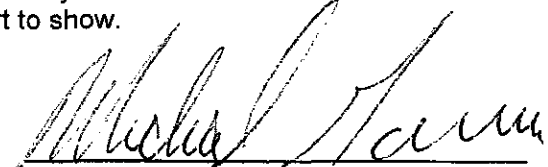
Affidavit of Michael Gorman

Michael Gorman, being first duly sworn, on his oath states:

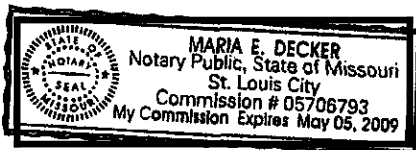
1. My name is Michael Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

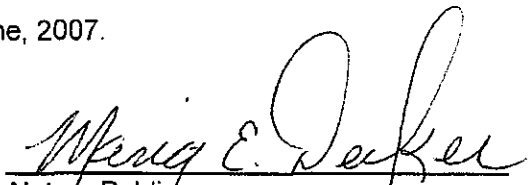
2. Attached hereto and made a part hereof for all purposes are my direct testimony and schedules on rate design issues, which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. WR-2007-0216.

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.


Michael Gorman

Subscribed and sworn to before me this 11th day of June, 2007.




Notary Public

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Direct Testimony of Michael Gorman

1 **Q PLEASE STATE YOUR NAME.**

2 **A Michael Gorman.**

3 **Q ARE YOU THE SAME MICHAEL GORMAN THAT HAS PREVIOUSLY FILED**
4 **TESTIMONY IN THIS PROCEEDING?**

5 **A Yes.**

6 **Q WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY ON RATE DESIGN**
7 **ISSUES IN THIS PROCEEDING?**

8 **A I will comment on the proposed rate design for the St. Louis District customers, and**
9 **comment on Missouri-American witness Mr. Edward J. Grubb's proposed Bill**
10 **Consolidation Tariff, Sheet No. RT 10.0(a).**

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1 **St. Louis District's Rates**

2 **Q HOW HAS MISSOURI-AMERICAN PROPOSED TO DESIGN THE ST. LOUIS**
3 **DISTRICT'S RATES?**

4 **A**Missouri-American witness Mr. James M. Jenkins proposes an equal percent change
5 to all tariff rates (Mr. Jenkins Direct at 19). However, the Company's rate proposal
6 would increase Rate J by 33.24%, which is above the system-average increase
7 proposed for the St. Louis District of 25.23% (Grubb Direct Item 4 at 8). Also, the
8 Company is not proposing to increase charges for other revenue items.

9 Mr. Grubb's proposed changes to St. Louis District rates contradict Mr.
10 Jenkins' proposed across-the-board rate increase. Further, Mr. Grubb's proposed
11 rates ignore the current rate class allocation of Infrastructure System Replacement
12 Surcharge (ISRS) qualified costs. The Commission has already approved an
13 allocation of ISRS costs among rate classes, and there is no cost justification for
14 altering this allocation.

15 **Q HOW DO YOU PROPOSE TO CHANGE RATES IN THE ST. LOUIS DISTRICT?**

16 **A**Consistent with Mr. Jenkins' recommendation, I propose a uniform percent increase
17 to the current bills paid by each rate class, and a uniform percent increase in
18 components deriving Other Revenue. However, the percent change to each rate
19 class base rate elements will be different to allow for a "roll-in" of ISRS revenues into
20 base rates. The current ISRS charge will be reset to zero when new rates go into
21 effect. Rolling in ISRS revenues into base rates allows for a uniform percent increase
22 to the total bills customers are currently paying to Missouri-American, but preserves
23 the current ISRS cost allocation.

1 **Q CAN YOU PROVIDE A SCHEDULE THAT ILLUSTRATES HOW RATES IN THE**
2 **ST. LOUIS DISTRICT WOULD BE CHANGED UNDER YOUR PROPOSAL?**

3 A Yes. This is shown on my Exhibit MPG-RD-1. As shown on this schedule, under
4 Column 1, I show the current base rate revenues produced for all the rate classes
5 and Other Revenue in the St. Louis District. Under the Column 2, I show the current
6 ISRS revenues paid by each rate class. Under the Column 3, I present the
7 combination of current base rates and ISRS revenues for each rate class. Under
8 Column 4, for illustrative purposes, I adjust Column 3 by the Company's proposed
9 24.9% district rate increase. Under Column 5, I show the adjusted total revenues by
10 rate class for each rate schedule. Under Column 6, I show the percent change to all
11 base rate elements needed to produce the revenue requirement by rate class. Under
12 Column 7, I show the dollar increase to all rate classes, and Other Revenue sources.

13 **Q IS THIS RATE DESIGN REASONABLE?**

14 A Yes. Maintaining the current allocation of ISRS charges amongst rate classes is
15 reasonable based on prior Commission orders. Further, these costs typically relate to
16 replacement of services and small mains, which are more heavily allocated to small
17 customers, and do not largely impact Missouri-American's costs for providing service
18 to larger customers. Therefore, maintaining this Commission-approved allocation is
19 reasonable.

20 Finally, an equal percent increase above current payments by rate class will
21 adjust all base rate elements by the same percent which will increase all customers'
22 current bills by the same percentage increase above that which they are currently
23 paying.

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1 This in effect is the same recommendation made by the Company, however it
2 preserves the current approved allocation of ISRS charges rather than redistributing
3 those costs amongst rate classes without consideration of cost causation and proper
4 allocation of costs. While the percent adjustment to base rates varies by rate class,
5 the actual percent increase to bills between all rate classes will produce an equal
6 percent cost increase. Therefore, I believe this proposed methodology is just and
7 reasonable and should be adopted.

8 **Q YOU HAVE PROPOSED IN YOUR ORIGINAL DIRECT TESTIMONY A BELOW**
9 **SYSTEM AVERAGE INCREASE FOR THE ST. LOUIS DISTRICT TO REDUCE**
10 **INTER-DISTRICT SUBSIDIES. COULD YOUR RATE DESIGN PROPOSAL STILL**
11 **WORK IF THE COMMISSION ADOPTS YOUR PROPOSED DISTRICT REVENUE**
12 **INCREASE?**

13 **A Yes. The percent increase the Commission ultimately determines is appropriate for**
14 the St. Louis District can be used in lieu of the Company's proposed 24.9% increase
15 to the St. Louis District under Column 4 of my Exhibit MPG-RD-1.

16 **Bill Consolidation Tariff**

17 **Q IS THE COMPANY PROPOSING TO IMPLEMENT A BILL CONSOLIDATION**
18 **TARIFF FOR ITS ST. LOUIS DISTRICT?**

19 **A Yes. Missouri-American witness Mr. Grubb has conducted a feasibility study, and**
20 determined that certain customers should be permitted to consolidate volume for
21 billing purposes. Based on an economic study, Mr. Grubb asserts that certain
22 customers should qualify for consolidated billing because of the proper allocation of
23 distribution mains, and other functional costs of the system to customers.

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1 **Q DO YOU BELIEVE MR. GRUBB'S PROPOSAL FOR CONSOLIDATED BILLING IS**
2 **APPROPRIATE?**

3 A Yes. Consolidated billing for certain customers does make sense and is cost justified.
4 The proposed tariff will help to properly allocate distribution costs to customers in
5 proportion to how those customers are causing the Company to incur costs, and will
6 also encourage economic consumption decision which should improve the system
7 load factor by mitigating system peak demands. However, in order to achieve this
8 latter demand-side management efficiency objective, I propose certain adjustments to
9 Mr. Grubb's proposed bill consolidation tariff.

10 **Q PLEASE DESCRIBE THE ADJUSTMENTS YOU PROPOSE TO MR. GRUBB'S**
11 **PROPOSED BILL CONSOLIDATION TARIFF.**

12 A Under his rate calculations section of the tariff, Mr. Grubb proposes the following
13 language:

14 Customers qualifying for bill consolidation will be charged the
15 applicable minimum customer charge associated with each meter
16 serving the subject property or contiguous properties. Consumption
17 rates for under [sic] Rate J will be applied to the total aggregated
18 usage of all meters at the property or contiguous properties to arrive at
19 the total bill for service. Thus, the customer's bill calculation will be
20 governed by the rules for the Rate J tariff until such time the customer
21 is no longer eligible under the Bill Consolidate Tariff.

22 **Q DO YOU PROPOSE ANY ADJUSTMENTS TO THIS TARIFF LANGUAGE?**

23 A Yes. I propose adjustments to this language to reflect the Rate J ratcheted demand
24 features that allow for a minimum bill to be determined based on the consolidated
25 consumption pattern of the customers, not individual meter volume. Distribution
26 mains serving many customers will be sized based on the consolidated demand
27 characteristics, and therefore this ratcheted demand feature for billing purposes

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1 should coincide with how the Company plans for the size of the distribution mains,
2 and thus determines its costs for these facilities.

3 **Q WHAT ALTERNATIVE LANGUAGE DO YOU PROPOSE FOR THE BILL**
4 **CONSOLIDATION TARIFF, IN THE SECTION ENTITLED "RATE**
5 **CALCULATION:"?**

6 **A** I propose the language be modified as follows:

7 Customers qualifying for bill consolidation will be charged for each
8 meter and the applicable minimum customer charge except for Rate J.
9 For Rate J, the 60% demand ratchet will be based on consolidated
10 consumption volume associated with each meter serving the subject
11 property or contiguous properties. Consumption rates for under Rate J
12 will be applied to the total aggregated usage of all meters at the
13 property or contiguous properties to arrive at the total bill for service.
14 Thus, the customer's bill calculation will be governed by the rules for
15 the Rate J tariff until such time the customer is no longer eligible under
16 the Bill Consolidate Tariff.

17 **Q ARE THERE ANY OTHER PROVISIONS OF THE PROPOSED BILL**
18 **CONSOLIDATION TARIFF WHICH YOU TAKE EXCEPTION?**

19 **A** Yes. Under Applicability, the tariff reads "Initiation of the bill consolidation for an
20 existing customer will commence at the conclusion of the Company's next general
21 rate case. New customers may apply for such consolidation at the time service is
22 requested. Bill consolidation will be applied for new customers to the first bill issued
23 to the customer following application and the Company's confirmation of eligibility."

24 **Q IS THE APPLICABILITY STANDARD REASONABLE?**

25 **A** No. The Bill Consolidation Tariff should be made available to qualifying customers at
26 the conclusion of this case. However, I understand the Company's concern about not
27 properly adjusting its billing determinants in this case to reflect consolidated billing.

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1 Hence, an estimate should be made by the Company for customers that are likely to
2 ask for consolidated billing at the conclusion of this rate case, and this tariff should be
3 made effective for those customers immediately.

4 The impact on the Company's claimed revenue deficiency for provision of this
5 tariff is likely to produce from its largest customers. It is reasonable to expect that the
6 Company already can reasonably estimate the customers which will qualify for the Bill
7 Consolidation Tariff, and thus estimate adjustments to each rate class billing
8 determinants and revenue requirement. This tariff will improve cost allocation
9 between customers, will improve price signals, and incentivize big customers to
10 levelize demand. This price signal improvement should be implemented as soon as
11 possible.

12 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ON RATE DESIGN**
13 **ISSUES?**

14 **A Yes.**

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MISSOURI-AMERICAN WATER COMPANY

Proposed Allocation St. Louis District

Line	Rate Class	Present Base Revenues (1)	Present ISRS Revenues (2)	Present Base & ISRS Revenues (3)	Company Proposed Percent Increase (4)	Total Adjusted Revenues (5)	Dollar Increase (6)	Percent Adjustment to Current Base Rates* (7)
1	Rate A	\$ 93,714,139	\$ 6,365,199	\$ 100,079,338	24.90%	\$ 124,996,049	\$ 24,916,711	33.38%
2	Rate B	1,931,713	55,683	1,987,396	24.90%	2,482,197	494,801	28.50%
3	Rate G	753,418	-	753,418	24.90%	940,996	187,578	24.90%
4	Rate F and E	7,407,936	-	7,407,936	24.90%	9,252,286	1,844,351	24.90%
5	Rate H	2,055,276	-	2,055,276	24.90%	2,566,977	511,701	24.90%
6	Rate J	6,158,095	-	6,158,095	24.90%	7,691,273	1,533,178	24.90%
7	Rate K	350,122	19,827	369,949	24.90%	462,055	92,106	31.97%
8	Total Rate Class	\$ 112,370,698	\$ 6,440,709	\$ 118,811,408		\$ 148,391,834	\$ 29,580,427	32.06%
	<u>Other Operating Revenues</u>							
9	Reconnect Charges	\$ 251,871	-	\$ 251,871	24.90%	\$ 314,579	\$ 62,708	24.90%
10	Returned Check Charge	39,912	-	39,912	24.90%	49,849	9,937	24.90%
11	Application Fee	-	-	-	24.90%	-	-	0.00%
12	Miscellaneous Other Revenue	889,752	-	889,752	24.90%	1,111,273	221,521	24.90%
13	Rents from Water Property	265,010	-	265,010	24.90%	330,989	65,979	24.90%
14	Miscellaneous Unmetered Sales	148,587	-	148,587	24.90%	185,581	36,994	24.90%
15	Total Other Revenue	\$ 1,595,132	\$ -	\$ 1,595,132		\$ 1,992,271	\$ 397,139	24.90%
16	Total Operating Revenue	\$ 113,965,830	\$ 6,440,709	\$ 120,406,540		\$ 150,384,106	\$ 29,977,566	31.96%

* (Col. 5/Col. 1) - 1