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Witness: *James A. Busch*
Sponsoring Party: *MO PSC Staff*
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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF

WATER AND SEWER DEPARTMENT

SURREBUTTAL TESTIMONY

OF

JAMES A. BUSCH

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

Jefferson City, Missouri
February 2018

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Q. Please state your name and business address.

A. My name is James A. Busch and my business address is P. O. Box 360, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am the Regulatory Manager of the Water and Sewer Unit, Regulatory Review Division of the Missouri Public Service Commission ("Commission").

Q. Are you the same James A. Busch that sponsored portions of the Staff Cost of Service and Class Cost of Service Reports in this proceeding and filed rebuttal testimony?

A. Yes I am.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to the testimony of Missouri-American Water Company ("MAWC" or "Company") witnesses James M. Jenkins regarding MAWC's proposed Revenue Stabilization Mechanism. I then respond to testimony regarding consolidated pricing as offered by Mr. Jenkins and the Consolidated Cities witness Mr. Michael J. McGarry, Sr. Finally, I will address MAWC witness Ms. Constance E. Heppenstall's rebuttal testimony regarding customer charges.

REVENUE STABILIZATION MECHANISM

Q. On page 18, lines 17 – 23 of his rebuttal testimony, Mr. Jenkins discusses Staff's argument that consumers who have already undertaken conservation measures will pay more under the RSM proposed by MAWC. What is your response to Mr. Jenkins' statement?

A. There seems to be a misunderstanding of Staff's position regarding this aspect of the RSM. Staff agrees that the less a customer uses, the lower that customer's bill. However, Staff's point regarding the RSM is illustrated by the following example. Assume that customer A has updated her house with more efficient appliances in 2016. Her usage in 2017 reflects the more efficient appliances and her bill is lower in 2017 than in 2016, assuming all else equal. Now, in 2018, her neighbor, customer B decides to lower usage as well. If an RSM mechanism was set that relied on 2017 usage, since usage was lower in 2018 than in 2017, the company will be able to include a surcharge on both customers' bills in 2019. Thus, customer A will have a surcharge on her bill which will cause her to pay more for water, even though her usage has remained constant since 2017. In fact, customer A will be subsidizing the company due to customer B's actions.

Furthermore, customer B will also have a surcharge on his bill as well in 2019 offsetting some of the benefits that he received in 2018 due to his efforts to lower usage. Thus an RSM may create a financial disincentive for future customers to pursue conservation efforts because the ultimate payback of the initial cost to upgrade the consumers' appliances will be pushed further into the future.

Q. On pages 17 and 18, Mr. Jenkins discusses the aspect of shifting risk from the Company to the consumers inherent with an RSM. Do you agree with Mr. Jenkins counter-arguments?

A. No. On lines 4 – 7 on page 18, Mr. Jenkins states that the Company is in essence surrendering upside potential revenues if usage is greater than the normalized amount built into the rate case. Staff agrees with this general statement. Under an RSM, the utility will not be able to keep additional revenues it collects when those revenues are greater than the revenues established by the Commission. However, the Company, in this proceeding, and in prior cases, argues that usage is declining and will continue to decline into the future. One of the main drivers, if not in fact the sole driver, of MAWC requesting an RSM is due to this assumed continued decline in usage. If MAWC believes that usage will continue to decline and thus an RSM is the only way to collect the revenues established by the Commission, then MAWC is asking the Commission to shift risk to the ratepayers. Thus, under the Company's position, risk, and any benefits of an RSM, are asymmetrical. As stated in my rebuttal testimony, if the Commission does determine that an RSM is in the public interest, Staff recommends a reduction in return on equity or a shift in capital structure equivalent to a potential reduction in return on equity to compensate the consumers from the shifting of risk/reward.

Furthermore, the Company will have collected revenues in excess of those established and will have use of those funds, until such time as they are returned to the consumers. Thus, even though the Company will eventually return the funds, the Company will have the opportunity to earn extra interest on those dollars that will not be credited back to the Company. This is a benefit to the Company that the consumers are paying without any compensation.

Q. On pages 16 and 17 of his rebuttal testimony, Mr. Jenkins agrees with Staff that an RSM generally eliminates the "throughput disincentive/incentive?" Is this the reason for MAWC's proposed RSM?

A. No. MAWC is not concerned about selling too much water. MAWC, through Mr. Jenkins and Mr. Greg Roach's testimony, argue that MAWC's residential customers have been using less water over the past few years and that that trend will continue for the foreseeable future. Thus, the reason driving MAWC's request for an RSM is to remove the risk it would face of lower sales that MAWC believes will continue.

Q. Further, on page 17, lines 4 – 8, Mr. Jenkins states that once the RSM is set, prices are allowed to flow up and down. Then, he states, the RSM stabilizes rates between rate cases. Is this a consistent argument?

A. No. Staff agrees with Mr. Jenkins' first statement that prices may go up and down with an RSM. Based on that, Staff has to disagree with his second statement. If rates are moving, they cannot be stable. With the traditional method of rate setting, as recommended by Staff, rates are stable between rate cases (except in St. Louis County where MAWC uses an ISRS), since rates cannot change between rate cases.

Q. Mr. Jenkins then goes on to state at the end of his answer that with revenue stability, the Company is able to maintain ongoing investments and improvements. Is an RSM required for MAWC to maintain investments and operations?

A. No. MAWC has been quite successful in making investments in its system and operations without an RSM. One need only look to this case and the investment MAWC made in the new Riverside/Platte County water treatment facility as an example of Company investment without an RSM.

CONSOLIDATED PRICING

Q. On page 13, lines 21 – 22 of his rate design rebuttal testimony, Mr. Jenkins states that parties who have claimed that consolidated pricing may lead to overspending by the utility have provided no evidence to support this claim. Please respond to this statement.

A. First, Staff and other parties, primarily OPC, in the previous MAWC rate case, WR-2015-0301, pointed out this reasonable concern of consolidation. Staff, in fact, conditioned its recommendation of consolidating to three districts in that proceeding by asking the Commission to require the Company to submit its five-year capital planning reports to the Commission so that the parties will be able to review the Company's proposed capital expenditures and to examine how those plans are followed and if they change over time. The Commission, in its Report and Order in that case, in which it agreed with Staff's consolidation proposal, also acknowledged this concern and Ordered the Company to file its five-year capital planning proposals.[1]

Second, Staff would suggest a review of MAWC's rate case, WR-2000-0281. It is that case that started the move away from consolidated pricing towards district specific pricing. The main driver in that case was the new St. Joseph water treatment facility built by MAWC in response to the flood of 1993. MAWC, at that time, made various

[1] Report and Order, File No. WR-2015-0301, pgs. 27 and 28.

statements to the St. Joseph area not to worry about the cost of the facility because those costs would be spread over the entirety of MAWC's customer base. Not only did various parties eventually oppose consolidation in that case, but Staff, OPC, and at least one intervenor proposed disallowances of certain aspects of the plant. Although the Commission ultimately disagreed with the proposed disallowances, concern that the Company has the incentive to overbuild facilities if costs can be spread to a larger customer base and thus lessen the overall impact to individual customers, is well-founded.

Q. The Coalition Cities, St. Joseph, Warrensburg, Joplin, and Jefferson City, filed testimony through their witness Mr. McGarry regarding consolidation. Do you have any concerns with Mr. McGarry's recommendation?

A. Yes. Mr. McGarry seems to want the largest seven districts to go back to each one of them having their own rate, plus all the other districts combined into a consolidated district. Unfortunately, Mr. McGarry makes no further recommendation as to how the rates for those other districts in the consolidated district should be determined.

Prior to the last case, District 8 was made up of various small districts. There was a common customer charge, but districts within District 8 were combined into three tiers. Since that time, MAWC has acquired additional districts that have been included in one of the three existing districts based on the acquired systems relative geographic location. Mr. McGarry's recommendation is silent on the proper way to set rates for those remaining districts to be consolidated into District 8.

CUSTOMER CHARGE

Q. On pages 6 and 7 of her rebuttal testimony, Ms. Heppenstall discusses customer charges, specifically the impact of Staff's proposed customer charge if the Company switches its customers in St. Louis County from quarterly to monthly billing. Please respond.

A. Ms. Heppenstall states that I did not discuss the impact on the Company if the Company voluntarily switches quarterly billed customers to monthly billed customers. She is correct. Staff does not address the impact on the Company's proposed voluntary switch. In Staff's cost of service report, Staff recommends the Company remain its status quo concerning quarterly monthly billing. In my rebuttal testimony, I discussed that Staff understands the impacts on both the customers and the Company if the switch occurs as outlined in the Company's direct testimony. However, I did not indicate that Staff had a specific recommendation.

Q. Does Staff have a recommendation regarding MAWC's proposed voluntary switch of quarterly billed customers to monthly billed?

A. Yes. Based on information from the Company's workpapers and discussions with Company personal, Staff believes that approximately 100,000 – 150,000 AMI meters have been installed in the St. Louis County area. However, according to the Company's response to Staff DR 0262, no conversions from quarterly to monthly have occurred at this time. Further, according to the Company's workpaper regarding its AMI conversion plan, all meters will not be installed until December 2020. Based on this information and the inherent issues with trying to develop a fair customer charge for consumers and the Company, Staff recommends that the Company withhold converting customers from quarterly billing to monthly billing until the rate case that will have rates effective after December 2020. This way, all costs associated with the new AMI meters can be included in the design of the monthly customer charge.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water Company's Request for Authority to Implement General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas	)))))	Case No. WR-2017-0285

AFFIDAVIT OF JAMES A. BUSCH

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW JAMES A. BUSCH and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Surrebuttal Testimony; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

JAMES A. BUSCH

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 8th day of February, 2018.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070

D. Suzie Mankin
Notary Public