

Exhibit No.:
Issue:
Witness:
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Sponsoring Party:

Rate Design
Donald E. Johnstone
Rebuttal Testimony
Ag Processing
City of Parkville
WR-2007-0216
July 13, 2007

**Missouri American Water Company
WR-2007-0216**

Rebuttal Testimony of

Donald E. Johnstone

on behalf of the

CITY OF PARKVILLE, MISSOURI
and

AG PROCESSING INC A COOPERATIVE

July 13, 2007



BEFORE THE
PUBLIC SERVICE COMMISSION OF MISSOURI

In the Matter of Missouri-American Water)
Company's request for Authority to Implement) Case No. WR-2007-0216
A General Rate Increase for Water Service)
Provided in Missouri Service Areas)

Affidavit of Donald E. Johnstone

State of Missouri)
) SS
County of Camden)

Donald E. Johnstone, being first duly sworn, on his oath states:

1. My name is Donald E. Johnstone. I am a consultant and President of Competitive Energy Dynamics, L. L. C. I reside at 384 Black Hawk Drive, Lake Ozark, MO 65049. I have been retained by City of Parkville, Missouri and AG PROCESSING INC A COOPERATIVE in this proceeding.

2. Attached hereto and made a part hereof for all purposes are my rebuttal testimony and schedules in written form for introduction into evidence in the above captioned proceeding.

3. I hereby swear and affirm that my rebuttal testimony and schedules are true and correct and show the matters and things they purport to show.

Donald E. Johnstone
Donald E. Johnstone

Subscribed and sworn before me this 13th day of July, 2007

Angela Hedges
Notary Public



Competitive Energy
DYNAMICS

Missouri American Water Company
WR-2007-0216

Rebuttal Testimony of Donald E. Johnstone

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Missouri American Water Company

WR-2007-0216

Rebuttal Testimony of Donald E. Johnstone

1 **INTRODUCTION**

2 Q PLEASE STATE YOUR NAME AND ADDRESS.

3 A Donald E. Johnstone. My address is 384 Black Hawk Drive, Lake Ozark, MO
4 65049 and my qualifications may be found in Schedule 1 attached to my direct
5 testimony in this matter.

6 **THE MPSC STAFF RATE DESIGN PROPOSAL**

7 Q PLEASE SUMMARIZE THE RATE DESIGN PROPOSAL OF STAFF FOR THE PARKVILLE
8 AND ST. JOSEPH DISTRICTS.

9 A Mr. Russo of the Staff has submitted a class cost of service study for each
10 MAWC district and rates for the recently created (but to date undefined)
11 customer classes in each district. I will focus on the Parkville and St. Joseph
12 districts, although the issues may be relevant to most if not all other districts.

13 First, Mr. Russo, like OPC, has used the new customer classes of
14 Residential, Commercial, Industrial, Public Authority and Sales for Resale
15 where there had been a single uniform declining block rate in the past. I
16 certainly support the creation of customer classes if and when necessary

1 and/or appropriate to reflect usage differences that cannot be reasonably
2 captured by the customer charges and the declining block usage charges.
3 However, a danger lies in creating a class or classes where the usage
4 characteristics that are necessary to support such classes are unknown. I have
5 also been advised by counsel that such may be unlawful discrimination.

6 Second, as compared to presently effective rates in these districts Staff
7 proposes to change the customer charges substantially in ways that are not
8 logical and not consistent with costs.

9 Third, Staff proposes to eliminate the declining block structure for the
10 usage rates, thereby creating large disparate impacts among various customers.

11 Taken as a whole for the Parkville and St. Joseph Districts, the Staff's
12 proposed rates create large rate impact problems. Regardless of one's position
13 in the matters of class definitions, class cost of service studies, and the design
14 of the rates themselves, the effect of the Staff proposal is to create serious
15 impact problems in comparison to presently effective rates.

16 **THE OPC RATE DESIGN PROPOSAL**

17 Q PLEASE SUMMARIZE THE RATE DESIGN PROPOSAL OF OPC FOR THE PARKVILLE
18 AND ST. JOSEPH DISTRICTS.

19 A Ms. Meisenheimer of OPC has submitted a class cost of service study for each
20 MAWC district. Like the Staff study, it suffers from a lack of usage
21 characteristics for each so called "customer class" in each district and as a
22 consequence the results of the study are unreliable.

1 **THE MAWC RATE DESIGN PROPOSAL**

2 Q PLEASE SUMMARIZE THE RATE DESIGN PROPOSAL OF MAWC FOR THE PARKVILLE
3 AND ST. JOSEPH DISTRICTS.

4 A The company submitted no cost studies for the districts or for the customer
5 classes. The proposal is equal percentage change to the rates for all districts,
6 regardless of cost.

7 **DEFICIENCIES IN THE MAWC PROPOSAL**

8 Q PLEASE SUMMARIZE THE DEFICIENCIES OF THE MAWC PROPOSAL FOR THE
9 PARKVILLE AND ST. JOSEPH DISTRICTS.

10 A First the company proposal disregards the cost of service for each of the
11 districts. Therefore, the rates do not reflect district specific costs and there
12 will be subsidies between and among the districts. This is inconsistent with a
13 policy of district specific pricing and I am advised by counsel that such rates
14 would represent undue and illegal preference for some districts at the expense
15 of others.

16 In the particular case of the St. Joseph District it also results in proposed
17 rates for industrial customers and sales for resale customers that are higher
18 than the proposed rates for residential service. There is no cost basis for this
19 proposal and it is inconsistent with any reasonable approach to cost based
20 rates. Again, I am advised that the proposal constitutes and undue and illegal
21 preference for some classes of customers at the expense of others.

Another concern is the proposal to disregard the difference between the revenues that would be due from Premium Pork under the standard industrial rate and the lower contract rate. I am advised by counsel that this approach is inconsistent with representations made by MAWC when approval of the contract rate was under consideration by the Commission.

DEFICIENCIES IN THE STAFF AND OPC PROPOSALS

Q PLEASE SUMMARIZE THE DEFICIENCIES OF THE OPC AND STAFF PROPOSALS FOR THE PARKVILLE AND ST. JOSEPH DISTRICTS.

A First there are deficiencies related to the customer classes:

- There are no definitions of what it takes to be in the customer classes;
- The recently created customer classes and different rates for the classes are based on assumptions rather than measured factual differences in load and usage characteristics between and among the classes.

Second, Staff proposed changes in the rate design exacerbate rate impact problems:

- The Staff proposes to eliminate the declining block structure thereby creating large impacts for individual customers;
- The Staff proposes to reduce the customer charges applicable to larger customers, thereby increasing volumetric rates and creating additional customer impacts.

1 Third, there is the very serious matter of customer impacts:

- 2 - The Staff consideration of the impact of proposed rate changes is
- 3 apparently nonexistent;
- 4 - The Staff's apparent lack consideration of the potential cumulative
- 5 impact of proposed rate changes in consideration of the recent
- 6 rate cases in which some customers' bills more than doubled is a
- 7 problem.

8 **Q DO PARKVILLE AND AGP OPPOSE THE CONTINUED USE OF THE RESIDENTIAL,**
9 **COMMERCIAL, INDUSTRIAL, PUBLIC AUTHORITY, AND SALES FOR RESALE**
10 **CUSTOMER CLASSES?**

11 **A** Yes, the use of the classes for rate differences is opposed unless and until
12 there is a demonstration of appropriateness based on the measured usage
13 characteristics of the Parkville and St. Joseph District customers. The principal
14 issue is the lack of any measured differences in usage characteristics among
15 the classes in each of the districts. If data existed then there would be
16 additional questions, 1) are there homogeneous classes that can be defined on
17 the basis of load and usage characteristics and 2) do the differences lead to
18 different costs of service and different rates. My clients believe there should
19 be no class distinctions unless the data to support such distinctions exists in
20 reality for these districts. Since the customer class differences were
21 eliminated in the rates for Parkville in the last case, i.e., all customer classes
22 pay the same rates in each usage block, all that is needed is to eliminate the

1 redundant and unnecessary class distinctions in the tariff. In other words, the
2 tariff should be simplified to eliminate separately stated rates for each
3 customer class since the rates are identical.

4 In the case of St. Joe, the rates will also be the same across classes in
5 consideration of the rate rationalization recommended in my direct testimony.
6 Thus, simplifying changes should also be made to eliminate the rate classes
7 from the tariff sheets applicable to the St. Joseph District.

8 **RECOMMENDATIONS**

9 **Q WHAT ARE YOUR SPECIFIC RECOMMENDATIONS?**

10 A First, the revenues collected in each district should reflect the
11 costs for the district. Second, the different rates for the classes in the St.
12 Joseph District should be replaced with a single uniform declining block rate
13 structure applicable for all customers in the district, as recommended in my
14 direct testimony (the same approach recently approved for the Parkville
15 District). Third, the tariff sheets applicable to the St. Joseph District and the
16 Parkville District should be restated to eliminate the class distinctions since the
17 customer and volumetric rates will be the same for all customers in each of the
18 respective districts.

19 **Q DOES THIS CONCLUDE YOUR TESTIMONY?**

20 A Yes it does.