

Exhibit No.:
Issues: Rate Model
Witness: Billie S. LaConte
Sponsoring Party: Barnes-Jewish Hospital
Type of Exhibit: Supplemental Testimony
Case No.:
Date Testimony Prepared: September 16, 2011

Metropolitan St. Louis Sewer District

2011 Wastewater Rate Change Proceeding

**Before the
MSD Rate Commission**

**Supplemental Testimony of
Billie S. LaConte**

**on Behalf of
Barnes-Jewish Hospital**



DRAZEN CONSULTING GROUP
Energy & Regulatory Economics

**Project No. 101479
September 16, 2011**

1 **Metropolitan St. Louis Sewer District**

2 **MSD Rate Commission**
3 **2011 Wastewater Rate Change Proceeding**

4 **Supplemental Testimony of Billie S. LaConte**

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

6 A Billie S. LaConte, 8000 Maryland Avenue, Suite 1210, St. Louis, Missouri 63105.

7 **Q ARE YOU THE SAME BILLIE S. LACONTE THAT FILED REBUTTAL AND SURREBUTTAL**
8 **TESTIMONY IN THIS PROCEEDING?**

9 A Yes.

10 **Q WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY IN THIS PROCEEDING?**

11 A I shall discuss the rate model used by MSD to calculate its revenue requirement and
12 rates in its current rate proposal.

13 **Q WHAT ARE YOUR COMMENTS REGARDING THE RATE MODEL?**

14 A I reviewed the rate model used by MSD and altered some of the inputs. Based on my
15 changes, MSD could fulfill the requirements of the Consent Decree with lower rate
16 increases.

1 **Q PLEASE EXPLAIN.**

2 A In my Surrebuttal Testimony dated August 19, 2011, I suggested changes that MSD
3 could make to lower its proposed rate increases and, at the same time, meet its
4 proposed capital schedule.

5 **Q PLEASE PROVIDE A SUMMARY OF YOUR SUGGESTED CHANGES.**

6 A

- 7 • MSD's customer count would remain the same throughout the rate period.
8 Usage would decline by 0.76% by FY2013, then remain the same through
9 FY2016. (MSD assumed that customer accounts would decline by 0.2% over
10 the rate period and that usage would decline by 1.9% over the rate period
11 (MSD Exhibit 1, Table 3-1 and Table 3-2, respectively.) MSD Exhibit 11A34
12 shows that actual FY2011 customers and usage increased by 0.3% and 2.3%,
13 respectively, over forecast 2011. Based on this data, assuming no growth is a
14 conservative estimate;
- 15 • Operating costs would increase 2.3% per year, excluding Rate Commission
16 cost, Additional Operating and Maintenance cost, Civil Service Commission
17 cost, or Group Insurance cost which remain the same as proposed in MSD's
18 Rate Proposal. This is based on Exhibit 18G titled "MSD's Inflation Trend
19 Analysis," which shows the average Consumer Price Index (CPI) from FY2006-
20 FY2012 as 2.3%. In the second year of the rate proposal, I lowered the

1 increase to 5% for OPEB cost and Pension cost. This recognizes that MSD has
2 switched from a defined benefit pension plan to a defined contribution
3 pension plan;

- 4 • I used a cash expenditure method to estimate the annual CIRP costs, based
5 on Exhibit MSD 50A and an inflation allowance of 1.5% (using 2010 \$). The
6 inflation allowance is lower than the CPI rate to reflect that some of the bids
7 for capital work may come in below traditional costs;
- 8 • Based on the lower CIRP requirements, I lowered the revenue bond issuance
9 from \$805 million to \$727 million over the rate period and maintained the
10 State Revolving Loan proceeds as shown in MSD's Rate Proposal;
- 11 • Cash financing was lowered to \$142 million over the rate period, compared
12 to MSD's proposed cash financing of \$159.1 million over the rate period; and
- 13 • I used a bad debt expense escalator of 3% per year instead of MSD's 32% for
14 FY2013 and 12% for FY2014-FY2016. This is based on the assumption that
15 MSD's improved collection methods will mitigate somewhat the effect of the
16 rate increases on bad debt expense.

17 **Q WHAT RATE INCREASES WOULD MSD NEED USING YOUR ASSUMPTIONS?**

18 A MSD would need to increase rates by 8.5% per year for the rate period FY2013-FY2016.
19 MSD has proposed 11%-12% annual increases. Schedule BSL-1 is a reproduction of
20 Table 3-11 in MSD Exhibit 1, using my inputs and assumptions.

1 **Q SHOULD MSD USE YOUR PROPOSED RATE INCREASES FOR ITS RATE PROPOSAL**
2 **PERIOD?**

3 A MSD should use the assumptions for the first year of the rate proposal period, FY2013,
4 which begins on July 1, 2012 and ends on June 30, 2013. The rates for the remaining
5 period, FY2014-FY2016 should be determined at a later hearing.

6 **Q WHY SHOULD MSD HAVE AN ADDITIONAL RATE HEARING TO DETERMINE THE RATE**
7 **INCREASES FOR FY2014-FY2016?**

8 A MSD has not finalized its Sanitary Sewer Overflow Control Master Plan (SSO Plan), which
9 is approximately 55% of its total proposed CIRP for the rate period (\$485.5 million for
10 FY2013-FY2016). In MSD Exhibit 60C, Surrebuttal Testimony of Brian Hoelscher, Mr.
11 Hoelscher states that the SSO Plan will be submitted to the EPA for approval by
12 December 31, 2013 (Page 9, Lines 6-7). Upon cross-examination at the surrebuttal
13 testimony rate hearing, on September 6, 2011, Mr. Hoelscher stated that the internal
14 draft of the plan is not available for review at this time. Therefore, it is premature for
15 MSD to propose rate increases for FY2014-FY2016, based on a CIRP schedule that is not
16 finalized and has not been fully approved by the EPA. What MSD has proposed today
17 versus what will be approved by the EPA on December 31, 2013, could differ
18 dramatically. It is unfair to customers to ask them to pay for a CIRP program that is still
19 in the early stages of planning.

20 **Q DOES THAT CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

21 A Yes.