



Control Number: 45570



Item Number: 298

Addendum StartPage: 0

RECEIVED

2016 AUG 31 PM 2:31

PUBLIC UTILITY COMMISSION
FILING CLERK

SOAH DOCKET NO. 473-16-2873.WS.
PUC DOCKET NO. 45570

APPLICATION OF MONARCH § BEFORE THE STATE OFFICE
UTILITIES I, L.P. TO CHANGE RATES § OF
FOR WATER AND SEWER SERVICE § ADMINISTRATIVE HEARINGS

REBUTTAL TESTIMONY

OF

JOHN W. HUTTS

ON BEHALF OF

MONARCH UTILITIES I, L.P.

AUGUST 31, 2016

298

**REBUTTAL TESTIMONY OF
JOHN W. HUTTS**

TABLE OF CONTENTS

	Page
I. INTRODUCTION3
II. PRICE ELASTICITY OF WATER DEMAND3

ATTACHMENTS:

JWH-1R Comparison of Requested Quantity Rates to OPUC Rate Structure
Using OPUC's Proposed Revenue Requirement

**SOAH DOCKET NO. 473-16-2873.WS
PUC DOCKET NO. 45570**

**APPLICATION OF MONARCH § BEFORE THE STATE OFFICE
UTILITIES I, L.P. TO CHANGE RATES § OF
FOR WATER AND SEWER SERVICE § ADMINISTRATIVE HEARINGS**

**REBUTTAL TESTIMONY OF
JOHN W. HUTTS**

1

I. INTRODUCTION

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

3 A. My name is John W. Hutts. My business address is 1850 Parkway Place, Suite 800,
4 Marietta, Georgia, 30067.

5 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?**

6 A. Yes I did.

7 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR REBUTTAL TESTIMONY.**

8 A. The purpose of my rebuttal testimony is to rebut the direct testimony of Chris Ekrut
9 of the Office of Public Utility Counsel (OPUC).

10

II. PRICE ELASTICITY OF WATER DEMAND

11 **Q. PLEASE SUMMARIZE THE SPECIFIC ISSUE RAISED BY MR. EKRUT
12 THAT YOU ARE REBUTTING WITH YOUR TESTIMONY.**

13 A. I disagree with Mr. Ekrut's recommendation to change Monarch's proposed water
14 rate structure by reforming the inclining block charges in the water volumetric charge
15 to unnecessarily promote further water conservation without considering the
16 associated reduction in customer water use. Mr. Ekrut recommends restructuring the
17 proposed water charge such that there is a 25% increase between each tier.

1 **Q. PLEASE EXPLAIN WHY YOU DISAGREE WITH MR. EKRUT'S**
2 **RECOMMENDATION.**

3 A. Mr. Ekrut's recommendation to restructure the inclining block charges appears to be
4 based entirely on consistency with suggested practices he cited from the Texas Water
5 Development Board's Report No. 362, titled *Water Conservation Best Management*
6 *Practices Guide*. However, Mr. Ekrut fails to address a critical result of his
7 recommendation, that being the reduction in water consumption corresponding to
8 such a significant change in the structure of the tier 3 and tier 4 quantity rates. In
9 particular, Mr. Ekrut's proposed charge for consumption in the fourth tier represents a
10 21.5 percent increase above the equivalent Monarch rate structure quantity rate based
11 on OPUC's proposed revenue requirement. The price elasticity of demand for water
12 with respect to price changes for tier 3, and especially for tier 4 of consumption is
13 unknown; however, an increase in the charge of the magnitude proposed by Mr. Ekrut
14 could possibly result in sharp declines in water consumption in the fourth tier to the
15 point that Mr. Ekrut's proposed rate would not sufficiently recover Monarch's cost of
16 service. I have illustrated the possible impact in Attachment JWH-1R, which
17 compares Monarch's requested quantity rates to OPUC's rate structure, using
18 OPUC's proposed revenue requirement.

19 **Q. SHOULD MR. EKRUT'S RECOMMENDATION TO RESTRUCTURE**
20 **MONARCH'S PROPOSED TIER CHARGES FOR WATER INCLUDE**
21 **REDUCTIONS IN WATER CONSUMPTION DUE TO PRICE ELASTICITY?**

22 A. Yes. Numerous price elasticity studies have been completed demonstrating that price
23 increases result in reduced consumption. Most, if not all, of these studies, including

1 the *Water Conservation Best Management Practices Guide* that Mr. Ekrut references
2 in his direct testimony, conclude that price elasticity of demand for water with respect
3 to price is relatively inelastic, meaning that a 10% change in price results in a less
4 than 10% change in demand. Still, a significant increase in the price of water could
5 result in a significant reduction in water consumption, and failure to address such
6 reductions in consumption during the rate design process could be problematic.

7 A study conducted by the National Regulatory Research Institute, titled
8 *Revenue Effects of Water Conservation and Conservation Pricing: Issues and*
9 *Practices*, reports that:

10 . . . the most likely price elasticity range for residential demand is -.20
11 to -.40 with price-elasticity coefficients for commercial and industrial
12 demand being in the range of -0.50 to -0.80. This review indicated
13 that commercial and industrial users will tend to reduce usage in
14 response to a rate increase by a larger proportion than residential users.
15 Presumably, a large increase in water rates will induce some
16 commercial and industrial users to seek alternative supplies.¹

17 The authors of this report conclude that:

18 Price elasticity is an essential tool for estimating the effect of a rate
19 change on water demand and revenues. The omission of price
20 elasticity from rate design analysis creates the potential for revenue
21 instability, as well as revenue shortfalls. Revenue shortfalls can be

¹ Beecher, J.A., et al. 1994. *Revenue Effects of Water Conservation and Conservation Pricing: Issues and Practices*. National Regulatory Research Institute, Columbus, OH, page 90.

1 especially problematic if the rate structure is substantially
2 modified, or if a large rate increase is implemented.²

3 **Q. HAS MR. EKRUT PROVIDED ANY ANALYSIS THAT SUPPORTS HIS**
4 **RECOMMENDED CHANGES TO MONARCH'S PROPOSED TIERED**
5 **WATER RATES?**

6 A. No. In his direct testimony, at the top of page 61, he recommends that "...the
7 inclining blocks be restructured so as to further encourage water consumption."
8 Given that Mr. Ekrut's proposed price tiers represent such a significant change from
9 the current and proposed charges recommended by Monarch, the expected impact on
10 water consumption under Mr. Ekrut's rate structure, particularly in tier 4, should be
11 analyzed at length prior to making such a drastic change. However, Mr. Ekrut has
12 failed to provide any such analysis or support.

13 **Q. DO YOU AGREE WITH MR. EKRUT THAT THE TIER CHARGES NEED**
14 **TO BE RESTRUCTURED TO FURTHER ENCOURAGE WATER**
15 **CONSERVATION?**

16 A. No. Historical data for the Monarch system clearly shows that average water
17 consumption per customer has been trending down since 2005. Additionally, as
18 witnessed by the number of ratepayer comments filed during this proceeding,
19 customers have already taken, and will continue to take, measures to reduce water
20 consumption. It's also very clear from the ratepayer comments that customers are
21 extremely sensitive to the existing price of water. Monarch's existing and proposed
22 rates are already based on an inclining block structure, and because water

² *Ibid*, page 89.

1 consumption is declining, there is no need to revise Monarch's proposed tier
2 structure. Finally, as I stated above, and supported by the empirical evidence
3 presented by Beecher, et al, further study regarding the impact of a drastic change in
4 the tier structure on water consumption would be appropriate before implementing
5 such radical changes. In conclusion, the current inclining block structure has proven
6 to encourage water conservation; therefore, there is no immediate need to change the
7 structure, and it would be inappropriate to do so at this time given the lack of
8 sufficient analysis by Mr. Ekrut.

9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 A. Yes.

**Comparison Of Requested Quantity Rates To OPUC Rate Structure
Using OPUC's Proposed Revenue Requirement**

(1) Billing Units	(2) Monarch Requested		(3) (1) x (2)	(4) OPUC Proposed Qty Rate	(5) OPUC Proposed Revenue	(6) (Total (5) / Total (3)) x (2) Monarch Qty Rate Structure @ OPUC's Qty Revenue	(7) (4) - (6) OPUC Higher (Lower) Than Monarch	(8) (7) / (6) % Change
	Qty Rate	Revenue						
427,024	\$7.84	\$3,349,256		\$7.08	\$3,131,889	\$7.64	(\$0.56)	-7.4%
547,191	\$9.66	\$5,287,943		\$8.85	\$5,011,202	\$9.42	(\$0.57)	-6.0%
78,574	\$10.96	\$860,988		\$11.06	\$838,437	\$10.69	\$0.37	3.5%
102,398	\$11.67	\$1,194,734		\$13.83	\$1,445,343	\$11.38	\$2.45	21.5%
		<u>\$10,692,921</u>			<u>\$10,426,871</u>			