FILED WITH
Executive Secretary
March 28, 2014
IOWA UTILITIES BOARD

STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA UTILITIES BOARD

IN RE: IOWA-AMERICAN WATER COMPANY	DOCKET NOS. RPU-2013-0002 TF-2014-0030

OBJECTION TO IOWA-AMERICAN WATER COMPANY'S COMPLIANCE FILING AND NEW RATES

The Office of Consumer Advocate (hereinafter "OCA"), a division of the Iowa Department of Justice, for its Objection to Iowa-American Water Company's (hereinafter "IAW") Compliance Filing and New Rates, does hereby state:

1. On March 6, 2014, IAW filed its Compliance Filing along with various calculations and revised tariff pages ("Compliance Sheets") in response to the Iowa Utilities Board's ("Board") Final Decision and Order of February 28, 2014 ("Final Order"). On March 11, 2014, IAW filed additional data related to its March 6 filings under the caption "New Rates" (the New Rates filing, together with the Compliance Sheets, are hereinafter referred to as the "Compliance Filings"). On March 18, 2014, IAW filed additional documents in response to questions posed by Board staff and OCA ("March 18 Response").

2. OCA has reviewed the data and calculations provided in the Compliance Filings and the March 18 response, and finds IAW has employed different methodologies for calculating its proposed rates than those used in IAW's original filings with the Board.

3. Based on its review of the Compliance Filings, OCA has identified two issues of concern. These issues of concern relate to changes in the calculations of rates made by IAW in response to the Board's directive regarding allocation of fire service costs.

Volumetric Charge Calculation

4. First, OCA is concerned about the calculation of the volumetric charges used by IAW in the Compliance Filings. IAW has improperly included the major portion of these costs in the first of its four volumetric rate tiers. This change in methodology disproportionately affects first rate tier users, for instance, residential users.

5. The data in the following table is derived from data provided by IAW in its full rate case tariff sheet filed at the beginning of the case in 2013, its interim tariff sheet also filed in 2013, and finally its updated tariff sheet filed with the Compliance Filing on March 6, 2014.

Rate Tier	**1**	**2**	**3**	**4**
% Increase From 2012 Rates *Original – Full Rate Case*	16.1	16.9	10	0
% Increase From 2012 Rates *Original – Interim Rates*	5.3	6.1	-0.2	0
% Increase From 2012 Rates *Updated – Compliance Filings*	17.9	7.9	0	0

As can be seen above, IAW has included a larger share of the costs of fire service in the first rate tier in its Compliance Filings than its overall allocation in its Full Rate Case increase or in its Interim Rate Case filings increase without fire protection cost. IAW's original computations resulted in percentage increases in Tiers 1 and 2 being approximately equal. The Board's Order did not mandate this change in volumetric charge calculation. IAW's new methodology uses Factor 9 from their class cost of service study. The allocation factors developed in Factor 9 are based on meter equivalents and have nothing to do with usage costs or the results of the Board order. This change in methodology disproportionately affects residential users and should be rejected. IAW should be ordered to spread the rate increase including fire protection costs allocated to volumetric rates evenly across all usage.

Customer Charge Calculation

6. Second, in its Final Decision and Order, the Board instructed IAW to include 50 percent of public fire service costs to be allocated to public fire customers with the remaining 50 percent allocated to all IAW customers. With respect to the 50 percent of the public fire service costs to be allocated to all IAW customers, the Board ordered that these costs should be divided equally between the customer charge and volumetric charge. (Final Order, pp. 48 and 49). The Board also ordered that 75 percent of private fire service costs should be allocated to private fire customers with the remaining 25 percent allocated to all IAW customers. With respect to the 25 percent of the private fire service costs to be allocated to all IAW customers, the Board ordered that these costs should be divided equally between the customer charge and volumetric charge. (Final Order, p. 51).

7. On March 6, IAW filed a Compliance Filing document captioned "Calculation of Customer 5/8-Inch Meter Per Month Per Final Decision and Order" (hereinafter "Compliance Customer Charge Calculations"), in which IAW used a new methodology to compute per-customer charges that is materially different from the methodology used in the corresponding sheet from IAW's original rate case filings (*see* IAW Response to OCA DR No. 010, Attachment 1). This new method of computing the per customer charges has the effect of increasing the total fixed customer charge from approximately $13.36 to the $14.08 as shown in IAW's Compliance Filings.

8. Much of the increase in IAW's new fixed customer charge results from changes in the way IAW calculated the per-customer costs related to fire service. IAW originally computed these per-customer costs by using meter equivalents, however in the Compliance Filing, IAW used actual customer counts instead. Meter equivalency is the accepted

methodology for customer charge calculations and was the method used by IAW when this case was originally filed and throughout the proceeding. IAW's change that reduced the denominator increased per customer costs related to fire service expenses. This change in methodology disproportionately affects residential users by increasing the total fixed computed charge. IAW should be required to continue to use meter equivalents when equitably calculating per-customer costs related to fire service.

Wherefore, the Office of Consumer Advocate respectfully requests that the Board determine that IAW should use an equal volumetric rate to all usage when allocating fire protection costs to volume and use meter equivalents when calculating per-customer costs related to fire service.

Respectfully submitted,

/s/ Mark R. Schuling
Mark R. Schuling
Consumer Advocate

John S. Long
Attorney

1375 Court Avenue, Room 63
Des Moines, Iowa 50319-0063
Telephone: (515) 725-7200
E-mail: IowaOCA@oca.iowa.gov

OFFICE OF CONSUMER ADVOCATE