

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 |

**CONDITIONAL 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 Conditional 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 Board's Final Decision and Order of February 28, 2014. In addition, 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").
2. OCA has reviewed the Compliance Filings and finds the data and calculations provided therein to be incomplete and vague. In addition, it appears IAW has employed different methodologies for calculating its newest rates than those used in IAW's original filings with the Board.
3. On March 18, 2014, IAW filed additional documents in response to questions posed by Board staff and OCA (the "March 18 Response").

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

Volumetric Charge Calculation

5. First, OCA is concerned about and does not fully understand changes in the calculation of the volumetric charges used by IAW in the Compliance Filings. IAW appears to have improperly included the major portion of these costs in the first of its four volumetric rate tiers.

6. 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.

| <u>Rate Tier</u> | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> |
|--|-----------------|-----------------|-----------------|-----------------|
| <u>% Increase From 2012 Rates</u> <i>Original – Full Rate Case</i> | 16.1 | 16.9 | 10 | 0 |
| <u>% Increase From 2012 Rates</u> <i>Original – Interim Rates</i> | 5.3 | 6.1 | -0.2 | 0 |
| <u>% Increase From 2012 Rates</u> <i>Updated – Compliance Filings</i> | 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 it included in its Full Rate Case or in its Interim Rate Case filings. IAW’s original computations resulted in percentage increases in Tiers 1 and 2 being approximately equal. IAW’s new methodology results in an increase for Tier 1 that is substantially higher than the increase for Tier 2. This change in methodology disproportionately affects residential users. IAW must explain and justify this change in methodology it used to calculate volumetric rates related to fire service expenses. OCA is reviewing the March 18

Response to determine whether that filing provides sufficient explanation of and justification for this change.

Customer Charge Calculation

7. Second, OCA is concerned about and does not fully understand changes in the calculation of the customer charge reflected in IAW's Compliance Filings. In its Final Decision and Order, the Board instructed IAW to recalculate its customer charge to include half of the cost of public fire service. (Final Order, p. 49). The Board also ordered IAW to include in the customer charge 50% of one-fourth of the private fire cost. (Final Order, p. 51).

8. 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; attached as **Appendix A** hereto; hereinafter "Original Customer Cost Sheet"). OCA believes that this new method of computing the per customer charges has the effect of increasing the total fixed computed customer charge from approximately \$13.36 to the \$14.08 as shown in IAW's Compliance Filings.

9. 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. This change in methodology disproportionately affects residential users. IAW must explain and justify this change in the denominator used to calculate per customer costs related to fire service expenses. OCA is

reviewing the March 18 Response to determine whether that filing provides sufficient explanation of and justification for this change.

Conclusion

10. At this time, OCA has not yet determined whether IAW has sufficiently explained and justified changes to the way it allocated fire service costs across rate tiers or how it computed the customer charge related to fire service cost. OCA respectfully requests that the Board allow OCA ten days to file a response to IAW's March 18 filing and asks that the Board delay approval of IAW's revised tariff until such time as OCA files its response and has had such additional time as is necessary to complete its review of these matters.

Wherefore, the Office of Consumer Advocate respectfully requests that the Board allow OCA ten days to file its response to IAW's March 18, 2014 filing and that the Board delay approval of IAW's revised tariff until such time as OCA files its response and has had such additional time as is necessary to complete its review of these matters.

Respectfully submitted,

/s/ Mark R. Schuling

Mark R. Schuling
Consumer Advocate

/s/ John S. Long

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

Attachment 1

IOWA AMERICAN WATER COMPANY

CALCULATION OF CUSTOMER COSTS PER 5/8-INCH METER PER MONTH

| | <u>Funtional Cost</u> | <u>Customer Cost Per 5/8-Inch Meter Per Month</u> |
|--|---------------------------|---|
| (1) Cost Related to Meters | \$ 6,671,045 | |
| (2) Meter Equivalents X 12 | 942,552 | |
| (3) Cost per Bill - Meter related | | \$ 7.08 |
| (4) Cost Related to Services | \$ 814,838 | |
| (5) Service Equivalents X 12 | 787,716 | |
| (6) Cost per Bill - Services related | | 1.03 |
| (7) Cost Related to Billing and Collecting | \$ 6,138,074 | |
| (8) Number of Customers X 12 | 743,052 | |
| (9) Cost per Bill - Billing and Collecting | | <u>8.26</u> |
| (10) Total Customer Costs (3)+(6)+(9) | | <u>\$ 16.37</u> |