

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of a Working Case to Consider the	)	
Establishment of a Low-Income Customer	)	File No. WW-2013-0047
Class or Other Means to Help Make Water	)	
Utility Services Affordable	)	

**MISSOURI-AMERICAN WATER COMPANY'S INITIAL COMMENTS**

COMES NOW Missouri-American Water Company ("MAWC" or "Company") and, as its Initial Comments in this matter, states as follows to the Missouri Public Service Commission ("Commission"):

**BACKGROUND**

1. MAWC is a Missouri corporation with its principal office and place of business at 727 Craig Road, St. Louis, Missouri 63141. MAWC is a Missouri corporation in good standing. A certified copy of MAWC's certificate of good standing was submitted in Case No. SA-2007-0316 and is incorporated by reference. MAWC currently provides water service to the public in and around the cities of St. Joseph, Joplin, Brunswick, Mexico, Warrensburg, Parkville, Riverside, Jefferson City, and parts of St. Charles, Warren, Jefferson, Morgan, Pettis, Benton, Barry, Stone, Greene, Taney, Christian and Platte Counties, and most all of St. Louis County, Missouri. MAWC currently provides water service to approximately 454,000 customers. MAWC further provides sewer service to approximately 3,200 customers in Callaway, Jefferson, Pettis, Cole, Morgan, Platte, and Warren Counties, Missouri.

2. Communications in regard to this Joint Application should be addressed to the undersigned counsel and:

Denny Williams  
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[Denny.Williams@amwater.com](mailto:Denny.Williams@amwater.com)

3. On August 8, 2012, the Commission issued its Order Opening an Investigation Into the Establishment of a Low-Income Customer Class or Other Means to Help Make Water Utility Service Affordable. Therein, among other things, the Commission directed that “[i]nterested utilities, organizations, individuals, and other stakeholders may file initial comments and enter exhibits addressing the financial burden on low-income water customers no later than September 7, 2012.”

4. The Commission’s Order further stated as follows:

The Commission wants stakeholders to specifically address the feasibility and advisability of establishing a low-income customer class based on the federal poverty level. Comments should include an analysis of: 1) the practicality of establishing such a class, including the effect on revenues and costs, 2) proposed guidelines for inclusion in such a class, 3) proposed verification procedures for participants, 4) the effect on the company’s bad debt expense, 5) similar low-income rate-classes established in other states, 6) the legality of establishing a low-income rate-class and 7) the appropriate rate or rate-formula for a low-income rate-class.

5. In the following paragraphs, MAWC will provide its initial comments and then respond in regard to the specific subjects identified by the Commission.

#### **INITIAL COMMENTS**

6. As the Commission may recall, MAWC proposed a low-income customer charge for the St. Louis Metro rate district in its general rate case, Case No. WR-2010-0131, through the direct testimony of MAWC witness Paul R. Herbert. The proposal would have implemented a low income

customer charge for residential customers with a 5/8" meter. This rate was set at 65% of the full customer charge for a residential 5/8" meter. The low-income tariff would not have impacted the customer's commodity rate, which is based on usage. The amount deducted for the low-income rate class would have been allocated to the rest of the district.

7. The proposal would have deemed customers who have already qualified for eligibility in the Low-Income Heating and Energy Assistance Program ("LIHEAP") or those at or below the poverty level to be eligible. MAWC proposed to cooperate with various Community Action Agencies ("CAAs") within the district to help administer this program, verify income eligibility, and promote the program. The CAAs are generally familiar with utility-based low-income programs and they currently administer MAWC's "H2O Help to Others" Program (which is MAWC's existing program that assists low-income customers). The proposal was patterned on a plan that had been operated by an MAWC affiliate in Pennsylvania.

8. The Company anticipated that it would have a tariff on file that sets out the low-income customer charge (FORM NO. 13, P.S.C. No. 9, Original Sheet No. RT64, in its original filing). MAWC projected a 30% participation rate of those eligible or, approximately, 12,000 customers.

9. Staff, through the rebuttal testimony of James Busch, did not support this program for the following reasons:

- a. it wanted more support for the necessity of such a rate;
- b. given the down economy, it did "not believe that this is the time to ask non-participating customers to pay higher bills to support low-income customers";
- c. it wanted more support for choosing to charge only 65% of the fixed portion of the customers' bill as an appropriate plan;
- d. it believed the uniform customer charge to be inconsistent with the low-income effort;
- e. it did not believe that a low-income proposal was necessary for water customers

after reviewing what an average consumer is spending for electric, gas, and water service<sup>1</sup>; and, f. it believed that MAWC's existing "H2O Help to Others Program" was the type of program that would provide the most benefit to its customers.

The Office of the Public Counsel also opposed the effort for similar reasons.

10. MAWC is unique when compared to some of the electric and gas utilities in Missouri in that it is not authorized to utilize consolidated pricing. Because of this situation, a low income class would disproportionately affect MAWC's ratepayers in lower income per capita areas. Therefore, under the existing rate design, some of MAWC's poorest ratepayers would likely be called upon to subsidize the lower-income customer class in their particular district.

11. A move to consolidated pricing for water services would help to reduce the amount MAWC's customers pay in its poorest, and in many cases highest rate water districts, and address the Commission's stated concern that there is a "heavy and disproportionate financial burden on low-income residential customers." A good example of this was provided in its general rate case, Case No. WR-2011-0337. Through the direct testimony of MAWC witness Denny Williams, consolidated pricing would have reduced the average residential customer bill in the company's Brunswick district from \$55.95 to \$27.85 per month based upon MAWC's proposed revenue requirement. By contrast, a low-income tariff applied under current district specific pricing would cause the average monthly bill for those Brunswick customers not eligible for a low-income tariff, yet of low income, to pay an even higher monthly bill than \$55.95. Thus, consolidated pricing is the single most significant change in rate design that would bring about the most relief to those with the greatest need, its lowest income customers. This is not to say that a properly designed low

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<sup>1</sup> In his April 2010 testimony, James Busch testified that on a monthly basis, a typical customer in the St. Louis Metro District pays approximately \$75 a month to AmerenUE, \$89 to Laclede Gas, and \$25 to Missouri-American Water Company. He opined that when one takes into account the addition of sewer service, cable television, internet, and telephone/cell phone, "the water bill is a very small percentage of a customer's monthly utility bills."

income residential water tariff does not have merit. However, a low income tariff under district specific pricing would simply exacerbate the issue of high rates for those not eligible for a low-income tariff. The smaller the district, the greater the degree to which the issue of high rates is made worse. Therefore, consolidated pricing of residential water rates must first be addressed before attention is turned to development of a low-income tariff.

### **Specific Areas in Which the Commission Seeks Comments**

12. ***Practicality of establishing a low-income class, including the effect on revenues and costs.*** MAWC's proposed low-income tariff in Case No. WR-2010-0131 and experimental low income tariffs in other utility rate cases in recent years demonstrate that establishment of some form of low-income rate assistance through a utility company's tariffs may be practicable. However, there are issues identified in other sections of this response that need to be addressed in order to insure that a low income tariff has an opportunity to be successful.

13. ***Proposed guidelines for inclusion in such a class.*** Guidelines for an individual to qualify for rates lower than other residential customers should be dependent upon the design of the low-income tariff. Accordingly, it could vary depending on the program design. As MAWC understands it, typical existing low-income utility assistance programs rely primarily on family income in relationship to federal poverty level guidelines. MAWC does not object to this approach. However, the Company cannot be said to have any special expertise in this area.

14. ***Proposed verification procedures for participants.*** Verification for participant qualification and other administration of low-income programs should be conducted by outside agencies that have experience in this area. MAWC currently relies upon independent agencies with experience administering such programs, such as the CAAs, for its H2O Help Program. MAWC

believes this approach would be appropriate for any future program as well.

15. ***Effect on the company's bad debt expense.*** It is MAWC's understanding that pilot programs that have been conducted to address low-income residential customer needs have not resulted in any measurable change in the utility company's uncollectible account ratios. However, MAWC does not believe there is enough empirical evidence to accurately predict the ultimate outcome of bad debt experience for any specific program design. The impact on uncollectibles should be measured after a program has been in place long enough to gather statistically valid empirical data.

16. ***Similar low-income rate-classes established in other states.*** MAWC has not conducted a detailed review of low-income rate classes in other states. The proposed low income tariff in Case No. WR-2010-0131 was closely designed upon a tariff that Pennsylvania-American Water Company has had in place for several years.

17. ***The legality of establishing a low-income rate-class.*** In the past, low-income class issues have drawn objections based upon Section 393.130, RSMo. Section 393.130 states, in part, as follows:

No gas corporation, electrical corporation, water corporation or sewer corporation shall make or grant any undue or unreasonable preference or advantage to any person, corporation or locality, or to any particular description of service in any respect whatsoever, or subject any particular person, corporation or locality or any particular description of service to any undue or unreasonable prejudice or disadvantage in any respect whatsoever.

The Commission has also previously found that it has "broad discretion to set just and reasonable rates." *In re Missouri-American Water Company*, Report and Order, Case No. WR-2000-281 (August 31, 2000). The implications of both Section 393.130 and the Commission's discretion should be at least considered as a part of this investigation.

18. ***The appropriate rate or rate-formula for a low-income rate-class.*** An appropriate rate formula can take many forms, but (aside from first addressing other rate variability issues discussed previously in regard to existing district specific pricing) MAWC strongly suggests that a low-income tariff be tied to the fixed portion of a customer's bill. This is the portion that is not controlled by the customer. Low-income assistance that is associated with the volumetric portion of a customer's bill is subject to more criticism because there may be customers that qualify for low-income assistance that do not take measures to reduce excessive energy and/or water consumption. Tying low-income assistance to the fixed portion of the bill maintains the price signals to which an individual customer should respond and is therefore more equitable to both the low-income customer and other consumers.

WHEREFORE, MAWC respectfully requests that the Commission consider the information provided herein and, thereafter, issue such orders as it shall find to be reasonable and just.

Respectfully submitted,

/s/ Timothy W. Luft  
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**ATTORNEYS FOR MISSOURI-AMERICAN WATER  
COMPANY**

**CERTIFICATE OF SERVICE**

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail or by U.S. Mail, postage prepaid, on September 7, 2012, to the following:

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/s/ Timothy W. Luft