

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

In the Matter of Missouri-American Water Company's)	
Request for Authority to Implement a General Rate)	<u>File No. WR-2015-0301</u>
Increase for Water and Sewer Service Provided in)	<u>File No. SR-2015-0301</u>
Missouri Service Areas)	

MISSOURI DIVISION OF ENERGY'S STATEMENT OF POSITION

COMES NOW the Missouri Division of Energy (MoDOE), by and through the undersigned counsel, and for it *Statement of Position* states:

10. Supply-Side Energy Efficiency, Water Loss Deferral Mechanism, Demand-Side Energy Efficiency

A. Should the Commission adopt the capital deferral mechanism and collaborative proposed by MoDOE to incentivize MAWC to increase supply-side energy efficiency and water loss reduction investment?

Yes. MoDOE recommends the authorization of a deferral mechanism for return on equity and depreciation costs associated with up to \$100 million in incremental infrastructure investments, made between the conclusion of this rate case and the beginning of the next rate case, to promote supply-side energy efficiency and water loss reduction. Eligible projects should include energy efficient equipment that reduces O&M costs, and water loss reduction measures.

MoDOE's proposal applies only to incremental investment above the average annual level of \$100 million per year, if that threshold investment is not achieved, the deferral mechanism would not be available. The Company should maintain the flexibility to determine the pace of incremental investments, not to exceed \$100 million between rate cases.

B. Should the Commission adopt the demand-side water efficiency program and collaborative proposed by MoDOE?

Yes. The Commission should approve MoDOE's demand-side efficiency proposal to fund demand-side efficiency up to a target of 0.5% of annual average Company revenues. The Commission should establish a collaborative group to assist the Company in determining measures, programs, and the evaluation thereof.

33. Rate Design & Customer Charge

A. *How should rates be designed?*

In general, rates should be designed while considering not just cost-causation, but principles of equity, efficiency, and gradualism. Volumetric rates resulting from the present case should be uniform to better encourage efficient water consumption; the Company should be required to consider inclining residential block rates in a subsequent case to encourage even more efficient consumption. Customer charges should be set at the minimum level required to recover direct customer-related costs.

MoDOE recommends that the Commission reject the Company's rate design proposal because the Company's proposed rate design would be inequitable for lower use customers, would affect the districts in disparate ways, and would not encourage efficiency of use.

The approach to rate design described in Staff's direct testimony under its proposed district consolidation and revenue requirement is generally acceptable to MoDOE. However, MoDOE opposes consideration of SFV or high customer charges referenced in Staff's rebuttal testimony.

B. *How should the customer charge be adjusted?*

Customer charges should be set at the minimum level required to recover direct customer-related costs, taking into consideration equity, efficiency, and gradualism concerns. Customer charges should not be set to recover all fixed accounting costs (i.e., a "straight fixed variable" rate design) because of equity and efficiency concerns, along with cost-causative principles. Uncollectible accounts are not directly and exclusively related to the number of customers, and should be recovered through volumetric (rather than customer) charges.

MoDOE recommends that the Commission reject the Company's proposal to significantly increase customer charges because the sharp relative increase in customer charges within some of the Company's current districts could lead to rate shock and result in less efficient customer choices regarding consumption.

WHEREFORE, MoDOE respectfully files its *Statement of Position*.

Respectfully submitted,

/s/ Alexander Antal

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CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been emailed to the certified service list this 11th day of March, 2016.

/s/ Alexander Antal