

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

In the Matter of Missouri-American Water)
Company’s Request for Authority to)
Implement General Rate Increase for) Case No. WR-2017-0285, et al.
Water and Sewer Service Provided in)
Missouri Service Areas)

**MISSOURI DIVISION OF ENERGY
STATEMENT OF POSITIONS**

COMES NOW the Missouri Department of Economic Development, Division of Energy (“DE”), and provides the following statement of positions:

In the pre-filed written testimony of DE witness Mr. Martin Hyman, DE provides testimony regarding the following issues that are still unresolved: (1) residential customer charge; (2) revenue stabilization mechanism (RSM); (3) lead service line replacements; and (4) inclining block rate designs. DE reserves the right to cross-examine witnesses on these and all other issues and to take a position on any issue in its briefs. DE offers the following statement of its position on the following issues:

Issue 21: Lead Service Line Replacement (LSLR)¹

a. *LSLR Activity – Should MAWC continue to replace the customer-owned portion of lead service lines (LSL) while performing water main repair and replacement?*

Yes. DE supports continuing MAWC’s LSLR Program as a means to present customers with an option to reduce the health risk associated with lead service lines. The Commission’s Report and Order in Case No. WU-2017-0296 indicates clear support for

¹ DE’s testimony on **lead service line replacements** is found in the following pre-filed testimonies of Mr. Martin Hyman: [Revenue Requirement Rebuttal Testimony](#), January 17, 2018; and [Surrebuttal Testimony](#), February 9, 2018, p. 2.

the policy considerations behind LSLRs. The Commission notes that LSLR is a recommended practice for reducing the risk of lead exposure and also notes the adverse health effects of lead exposure.² The decision in that case states, “The public policy related to lead in drinking water and its adverse health effects is particularly persuasive in this case. MAWC’S LSLR Program adheres to the recommended method of lead removal and eliminates the risk of lead containment that exists with partial lead pipe replacements.”³

i. Should the Company prioritize at risk populations?

Yes, the Company should make attempts to prioritize replacements for low-income customers. There are ways to address the potential equity concerns associated with socializing the costs of LSLRs for customers without the means to pay for replacements. DE is not opposed to a cost allocation methodology for the costs of the Program that ensures payment by the customer groups associated with LSLR costs, and supports ratepayer-funded LSLRs for low-income customers.

ii. Should the Company be required to disclose known lead service line and when should that notification take place?

Yes, the Company should be required to disclose known lead service lines once it becomes aware of such lines.

iii. Should the Company be required to have a written plan about its LSL replacement program?

DE is not opposed to the Commission Staff’s suggested annual planning process.⁴

² Missouri Public Service Commission Case No. WU-2017-0296, *In the Matter of the Application of Missouri-American Water Company for an Accounting Order Concerning MAWC’s Lead Service Line Replacement Program*, Report and Order, November 30, 2017, p. 6.

³ *Id.*, p. 9.

⁴ Missouri Public Service Commission Case No. WR-2017-0285, *In the Matter of Missouri-American Water Company’s Request for Authority to Implement General Rate Increase for Water and Sewer Service*

- iv. *Should the Company be required to provide test kits and what testing parameters should be in place including whether the results should be disclosed to the public?*

DE does not take a position on this issue at this time, but reserves the right to take a position following testimony at the evidentiary hearing.

- v. *Should the Company be required to do a cost-benefit analysis?*

The program addresses health and safety concerns. The program should not be terminated or delayed pending performance of cost-benefit analyses. However, evaluating cost in the context of a collaborative could inform ongoing improvements to enhance cost-effectiveness of the program. For example, DE supports taking steps to ensure that lead service line replacements by the Company are prioritized towards low-income customers, which would provide the best use of ratepayer funds, and supports addressing the potential equity concerns associated with socializing the costs of LSLRs for customers with the means to pay for replacements.

- vi. *Should the Company be required to comply with OSHA lead standards?*

DE does not take a position on this issue at this time, but reserves the right to take a position following testimony at the evidentiary hearing.

- vii. *Should the Company be required to have a plan for how they will address excess costs related to unusual site restoration work?*

DE does not take a position on this issue at this time, but reserves the right to take a position following testimony at the evidentiary hearing.

- viii. *Should the Company be coordinating activity with other pertinent entities?*

Provided in Missouri Service Areas, Rebuttal Testimony of James A. Merciel, Jr., PE, January 17, 2018, p. 7, ll. 5-20.

Yes. The Company indicates that, in addition to its water main replacement planning, it coordinates with local municipalities on main replacements, and that lead service lines are replaced upon discovery during main replacements.⁵

ix. Should the Company be required to remove all lead service lines including vacant properties or inactive accounts?

DE does not take a position on this issue at this time, but reserves the right to take a position following testimony at the evidentiary hearing.

x. Should the Company also be replacing worn out customer-owned service lines, copper service lines, and/or galvanized pipes?

DE does not take a position on this issue at this time, but reserves the right to take a position following testimony at the evidentiary hearing.

xi. How should costs be allocated?

There are ways to address the potential equity concerns associated with socializing the costs of LSLRs for customers with the means to do so themselves. DE is not opposed to a cost allocation methodology for the costs of the Program that ensures payment by the customer groups associated with LSLR costs, and is also not opposed to a program that targets ratepayer-funded LSLRs to low-income customers.⁶

b. Pilot Program – Should the Commission order the implementation of OPC proposed LSL pilot program?

If the Commission orders the implementation of an LSL collaborative, such an effort should be reasonably priced (i.e., cost no more than \$150,000), should not disrupt the continuity of the current LSLR Program until a suitable alternative is implemented, and should be limited in scope to MAWC's service territory and problems that MAWC

⁵ Aiton Rebuttal, Schedule BWA-1, p. 5, ll. 15-22.

⁶ Hyman Rebuttal (Revenue Requirement), pp. 3-4, ll. 17-20 and 1-2 (citation omitted).

could reasonably address, since the study would be funded by MAWC ratepayers. These conditions would ensure that safety- and health related LSLRs continue as lead service lines are discovered, and that the costs of any study effort borne by MAWC's ratepayers produce benefits for those ratepayers.⁷

c. LSLR AAO Treatment – What recovery approach, if prudent, should be adopted for the AAO amount from WU-2017-0296?

DE does not take a position on this issue at this time, but reserves the right to take a position following testimony at the evidentiary hearing.

d. Future LSLR Recovery – What the Commission authorize in this case for the recovery of future LSLR activity?

DE does not take a position on this issue at this time, but reserves the right to take a position following testimony at the evidentiary hearing.

Issue 33: Revenue Stabilization Mechanism (RSM)⁸

a. Should the Commission adopt a Revenue Stabilization Mechanism?

No, DE does not support an RSM for the Company at this time. The RSM request might be reasonable if the Company were implementing robust practices to encourage demand-side water and energy efficiency that resulted in a meaningful level of customer savings. As a form of “decoupling,” the RSM could theoretically make the Company indifferent to changes in customer usage, enabling better support of demand-side efficiency programs; better support of demand-side efficiency programs can be a reason to support the shifting of revenue recovery risk from the Company to ratepayers. However, the Company's programs are in their initial phases, following an agreement in MAWC's

⁷ *Id.*, p. 4, ll. 7-13 (citation omitted).

⁸ DE's WR-2017-0285 testimony on the **RSM** is found in following testimony of Mr. Martin Hyman: [Rate Design Rebuttal Testimony](#), January 24, 2018, pp. 2-4.

previous rate case. At a minimum, an RSM should not be adopted until the Company has shown the ability to effectively implement and manage demand-side efficiency programs, and the Company should first propose a detailed and robust plan to encourage demand-side water 1 efficiency that includes target reductions in water and energy usage and evaluations of the plan's effectiveness.

Issue 34: Water Rate Design⁹

a. What is the appropriate customer charge for each customer classification?

DE does not recommend raising the residential water customer charges in this case. Additionally, if the Company moves its quarterly billed customers to monthly billing, then the quarterly residential water customer charge should remain the same and the monthly residential water customer charge should be lowered to \$7.45.

Issue 38: Inclining Block Rates¹⁰

a. Should the Commission authorize the implementation of inclining block rates?

DE supports gradual movement towards inclining block rates for residential water customers. DE's position on inclining block rates in this case is that they should only be implemented if it can be demonstrated that there will not be significantly adverse bill impacts on customers from these rates. Accordingly, DE recommends the following conditions on the potential implementation of inclining block rates in this case:

⁹ DE's WR-2017-0285 testimony on the **residential customer charge** is found in following testimonies of Mr. Martin Hyman: [Rate Design Direct Testimony](#), December 13, 2017, pp. 5-19; [Rate Design Rebuttal Testimony](#), January 24, 2018, pp. 4-8; and [Surrebuttal Testimony](#), February 9, 2018, pp. 8-9.

¹⁰ DE's WR-2017-0285 testimony on **inclining block rates** is found in the following testimonies of Mr. Martin Hyman: [Rate Design Rebuttal Testimony](#), January 24, 2018, pp. 8-14; and [Surrebuttal Testimony](#), February 9, 2018, pp. 4-7, 9-15.

1. Implementation of an inclining block rate should be delayed if the Commission orders further district consolidation in this case. Additional district consolidation could compound bill impacts from inclining block rates and any ordered revenue requirement;

2. An inclining block rate should be implemented if, in combination with the effects of other decisions as to revenue requirement and rate design, the inclining block rate would not result in unduly adverse bill impacts (e.g., no greater than a five percent bill increase on the 95th percentile of customers on a revenue-neutral basis)

b. Should the Commission authorize an inclining block rate pilot program?

DE supports a pilot inclining block rate program for residential water customers with a few conditions. First, the pilot rate should be applied to a broader geographic area than Joplin. Second, customers on the pilot rate should be presented with “shadow billing” that compares their bills under a single block volumetric rate and an inclining block rate. Lastly, the Company should present findings from its pilot in its next general rate case, including, but not limited to, the effects of the inclining block rate on customer consumption, observed price elasticities, customer responses to the inclining block rate, and the changes in Company revenue requirements resulting from changes in consumption due to the inclining block rate.

WHEREFORE, the Missouri Division of Energy respectfully offers the above statement of its positions on the issues.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been served electronically on
all counsel of record this 21st day of February, 2018.

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