BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application and Petition of Missouri-American Water Company Requesting the Commission Promulgate a Revenue Decoupling Mechanism for the Water and Sewer Industry	)	**File No. WX-2015-0209**

Recommendation of
<u>Missouri Industrial Energy Consumers</u>

The Missouri Industrial Energy Consumers[1] ("MIEC") appreciates this opportunity to submit its recommendation concerning the Application and Petition of Missouri-American Water Company ("MAWC") requesting the Commission to promulgate a revenue decoupling mechanism for the water and sewer industry. MIEC is opposed to MAWC's request, and urges the Commission to dismiss the Application and not pursue a rulemaking proceeding.

MAWC cites two primary factors, namely that weather has a significant impact on revenues, and that usage per customer is generally declining. The fact that weather has a significant impact on a water utility's revenues is not startling news. Weather always has had an impact on water sales, and undoubtedly always will. (The same is, of course, true for sales of electricity and sales of natural gas.) Because of the impact of weather, in a proceeding where rates are set an attempt is made to "weather normalize" sales volumes so as to provide a representative basis for determining rates. Obviously, revenues, and return, will vary over time as actual weather deviates (either wetter or drier) from normalized values. This is well understood by customers, by utilities, by public service commissions and by utility stock analysts and investors.

[1]MIEC consists of many of the largest employers in the state. Many of them purchase water from MAWC in the St Louis district.

The second reason cited, declining usage per customer, also is not justification for some form of revenue decoupling. The mere fact that consumers may choose to use slightly less of a utility's product does not entitle the utility to collect more revenues. Furthermore, MAWC has not shown that there is an absence of countervailing cost reductions that are associated with reduced usage that mitigate the impact of this trend. In addition, given the sales decline statistics quoted by MAWC, it is obvious that weather variations have a much more significant impact on sales volumes than the observed decline in average usage per customer.

Effectively freezing revenues (even net of power, chemicals and other variable costs) regardless of changes throughout the utility's operations ("all relevant factors") would allow the utility to collect the same revenues even if other aspects of the revenue requirement are decreasing, such as occurs when utility plant depreciates and the rate base, and hence the required return, decreases over time. The decoupling approach also totally ignores any improvements in operating practices and increased automation that utilities implement in order to reduce costs. The guarantee of revenue recovery reduces the incentives that a utility has to manage its business efficiently.

To the extent that there is a problem that needs fixing, MIEC suggests that the first place to start is rate structure. As clearly shown on page 3 of the February 25, 2015 presentation that MAWC made to the Commission, there is an astounding disconnect between cost structure and rate structure. According to MAWC, only 9% of its costs vary with usage volumes, but 77% of its revenues vary with usage volumes. The other 91% of its costs are fixed, but revenues collected through fixed charges are only 23% of total revenues. MIEC believes that further work on a fixed/variable type of rate design that would provide greater assurances of fixed cost recovery is the better solution. It makes a lot more sense than distorting the overall regulatory process and reducing incentives to manage the business efficiently that would result should a decoupling mechanism be adopted.

For all of the above reasons, MIEC urges the Commission to reject MAWC's Petition.

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