

Exhibit No.: 123
Issue(s): Rate Design, Inclining
Block Rate
Witness: Curt B. Gateley
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: WR-2017-0285
Date Testimony Prepared: February 9, 2018

MISSOURI PUBLIC SERVICE COMMISSION
COMMISSION STAFF DIVISION
WATER AND SEWER DEPARTMENT

SURREBUTTAL TESTIMONY

OF

CURT B. GATELEY

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

Jefferson City, Missouri
February 2018

Exhibit No. 123
Date 3/8/18 Reporter MW
File No. WR-2017-0285

Surrebuttal Testimony of
Curt B. Gateley

1 Q. Did Mr. LaGrand have additional proposals for Arnold?

2 A. Yes, he proposed that the Commission calculate what the rates should be for
3 Arnold based on cost of service; and if this would result in a rate higher than \$33.58 then the
4 Commission should approve a tariff which would automatically raise rates for Arnold
5 customers once the agreement with the City expires in May of 2019.

6 Q. What is Staff's position on this proposal?

7 A. Staff opposes this proposal for automatic, future rate increases. While
8 Mr. LaGrand states that the higher rate would be based on the current cost of service, Staff
9 asserts that the cost of service a year and a half from now likely will be different than it is
10 now. If the company determines that rates need to increase for Arnold at a future date,
11 MAWC may file a rate case at that time so that all relevant information may be examined.

12 Q. MAWC witnesses describe a possible inclining block rate pilot program. Is
13 MAWC now proposing inclining block rates?

14 A. No. As described in MAWC witnesses Jenkins and Heppenstall's testimonies,
15 MAWC opposes inclining block rates. But both witnesses describe a possible pilot program
16 limited to Joplin if the Commission decides to pursue an inclining block rate. This pilot
17 program is conditioned on the Commission approving a revenue stabilization mechanism
18 (RSM) for the entire MAWC service territory.

19 Q. Does Staff support such a pilot program?

20 A. No. Staff still recommends the Commission consider inclining block rates
21 unnecessary, and potentially harmful to both the customers and MAWC. The same concerns
22 previously offered in testimony would apply to a pilot program in Joplin. The company has
23 not completed any studies to attempt to design a block rate or to predict customer response,

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1 along with consideration of existing declines in usage, changes in population, etc. Therefore,
2 it is quite possible that were the Commission to implement an inclining block rate, customers
3 in Joplin would be paying a different amount of money for the same service, without that
4 difference being supported by any evidence in the case. While the risks to MAWC of under
5 earning would be greatly reduced if the experimental rate were limited to Joplin, the risks to
6 customers residing in Joplin overpaying for service would remain the same. Additionally,
7 MAWC conditions the experimental pilot rate on the Commission approving a RSM for the
8 entire MAWC service territory. As explained in its rebuttal testimony, Staff generally does
9 not support MAWC's request for an RSM, but Staff cannot foresee any benefit to customers
10 by tying that request to an inclining block rate pilot proposal. Staff understands what MAWC
11 is trying to accomplish with the pilot proposal, but cannot endorse it.

12 Q. What is DE witness Hyman's position on the format of rate design testimony?

13 A. Mr. Hyman proposes that the Commission order MAWC and Staff to file rate
14 designs based on each other's revenue requirements, rate classifications, and consolidation
15 proposals, but using the same customer charges as proposed in their respective testimonies, as
16 well as bill impact comparisons. Mr. Hyman does not state why other parties to the case that
17 have filed similar testimony should not be included in his request.

18 Q. What is Staff's response to this unusual request?

19 A. MAWC and the other parties may file whatever testimony they see fit to
20 support their rate position. The positions of Staff, and the resulting proposed potential rates
21 for customers, are evident in the testimony. Neither Staff nor MAWC should be required to
22 file additional testimony or scenarios in a format requested by the Division of Energy.

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1 Q. Does Mr. Hyman make additional statements about Staff's and MAWC's
2 positions on inclining block rates?

3 A. Yes, Mr. Hyman suggests that considering water scarcity as a primary driver of
4 inclining block rates focuses on short-run decisions. He suggests inclining block rates can be
5 used to decrease customer water use, which can reduce the need for future plant investment.
6 However, Mr. Hyman does not identify what plant investments would be reduced. MAWC
7 contends in this case that customer usage is decreasing, not increasing. MAWC plant
8 investment is driven by replacing existing infrastructure that is beyond its useful design life,
9 improving water quality, and delivering water to customers in a more efficient manner.
10 MAWC is not forecasting the need for a series of larger water treatment plants. Source of
11 supply is MAWC's most important long-term planning decision, and MAWC is in the best
12 position to make these decisions. Mr. Hyman does not address that existing, routine efforts to
13 replace plant, such as worn out pumps, already drives significant energy efficiency for
14 MAWC and lowers energy usage.

15 Q. Does Mr. Hyman address the conclusions by researchers previously cited in
16 this testimony that inclining block rates generally have a much lower impact on customer
17 usage than overall rate levels?

18 A. No. Mr. Hyman seems to suggest that an inclining block rate will, in and of
19 itself, create significant changes in usage. This has not been the case in the situations Staff
20 reviewed.

21 Q. Does Mr. Hyman provide any cost-benefit analysis to support the effort of
22 developing inclining block rates?

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1 A. No. Mr. Hyman affirms Staff's position that not enough information exists to
2 develop inclining block rates at this time, but he fails to address the costs to create a
3 well-developed inclining block rate. These include the cost of MAWC commissioning a
4 study to attempt to predict customer usage reaction to an inclining block rate, determining
5 socio-economic factors related to the ability to alter base usage, the potential for increased bad
6 debt expense, education and outreach, the possibility of additional rate case expense to
7 attempt to modify or eliminate an inclining block rate if it does not work as intended, etc.
8 Mr. Hyman does not identify any monetary benefits to customers resulting from the
9 imposition of an inclining block rate, except as an assumption of reduced usage and
10 theoretical reduction in plant investment at a future unknown date. The additional costs,
11 which would result in new additional costs to be recovered in rates, are not justified by any
12 identified benefits in the testimony provided at this time.

13 Q. Does Mr. Hyman provide specific recommendations for an order from the
14 Commission on this subject?

15 A. Yes, Mr. Hyman recommended that the Commission order in the next
16 rate case:

- 17 1. The Company and Staff shall provide bill frequency data along with
18 their direct case filings; and
- 19 2. The Company and Staff shall provide alternative inclining block
20 rate proposals in addition to their recommended rate designs as part
21 of their direct filings.

22 Staff does not recommend the Commission order the parties to provide inclining block
23 rate proposals, for the reasons discussed above. Staff does not oppose MAWC providing
24 additional billing data with its direct case filing.

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1 Q. Does this conclude your surrebuttal testimony?

2 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

AFFIDAVIT OF CURT B. GATELEY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW CURT B. GATELEY and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Surrebuttal Testimony; and that the same is true and correct according to his best knowledge and belief.

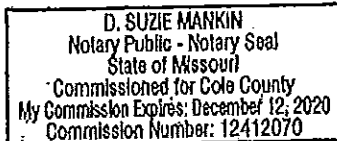
Further the Affiant sayeth not.

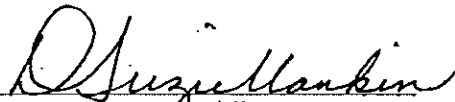


CURT B. GATELEY

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 8th day of February, 2018.





Notary Public