

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

In the Matter of Missouri-American Water)
Company’s Request for Authority to Implement) Case No. WR-2020-0344
General Rate Increase for Water and Sewer)
Service Provided in Missouri Service Areas.)

**STATEMENT OF POSITION
OF THE MISSOURI INDUSTRIAL ENERGY CONSUMERS**

COMES NOW the Missouri Industrial Energy Consumers (“MIEC”) and provides its

Statement of Positions as follows:

1. **Test Year** – What is the appropriate test year (historic or future test year), update, true-up period and discrete adjustments, if any, that the Commission should employ for purposes of determining MAWC’s cost of service in this case?

Position: The Commission should adopt a historic test year and should reject MAWC’s proposal for a future test year. (Meyer Direct pp. 3-19)¹

2. **Allocations** – What is the appropriate method to allocate MAWC corporate costs to the water and sewer districts?

Position: The MIEC does not take a position on this issue.

3. **Rate Base**

- a. Emerald Pointe & City of Hollister Pipeline – Should the unamortized amount of the cost of the pipeline be included in rate base?

Position: The MIEC does not take a position on this issue.

- b. Cost of Acquisitions – Should the unamortized amounts of the Hickory Hills and Woodland Manor acquisitions be included in rate base?

Position: The MIEC does not take a position on this issue.

- c. Lead Service Line Replacements – Should the deferred balance of customer-owned lead service line replacements be included in rate base?

Position: The MIEC does not take a position on this issue.

¹ Mr. Meyer filed direct, rebuttal and surrebuttal testimony regarding revenue requirement. He also filed direct testimony regarding rate design. References are to Mr. Meyer’s revenue requirement testimony unless otherwise indicated.

- d. Capitalized Depreciation – Should MAWC capitalize a portion of depreciation expense on tools and equipment partly used on capital projects?

Position: The MIEC does not take a position on this issue.

- e. Cash Working Capital –

- i. What is the appropriate expense for lead or lag treatment for Service Company expenses?

Position: The MIEC does not take a position on this issue.

- ii. What should the lead and lag treatment for income tax expense be in cash working capital?

Position: The MIEC does not take a position on this issue.

- iii. American Water Works Service Company Prepaid Billing – Should the Commission authorize MAWC to recover its prepaid billing and payment arrangement as a service expense?

Position: The MIEC does not take a position on this issue.

- f. ADIT –

- i. Should MAWC's booked Accumulated Deferred Income Tax (ADIT) include a reduction for net operating loss?

Position: Yes, MAWC's booked ADIT should include a reduction for net operating loss. (Meyer Direct pp. 25-26)

- ii. If so, would there be an effect on the level of excess ADIT to be flowed back to ratepayers?

Position: Yes, the reduction for net operating loss will impact the level of excess ADIT flowed back to ratepayers. (Meyer Direct pp. 25-26)

4. **Excess ADIT** – What is the appropriate treatment for the flow back of unprotected excess ADIT to rate payers?

Position: The Commission should require that MAWC amortize excess EADIT over five years. (Meyer Surrebuttal pp. 28).

5. **Usage Normalization** – What is the appropriate level of normalized annual usage that the Commission should adopt for calculating normalized revenues for each rate class and service territory?

Position: The MIEC does not take a position on this issue.

6. **Water Utility Revenues** – What are the appropriate revenues to use to determine the increase or decrease in water service revenue requirement?

Position: Revenues should be annualized using a three-year average of usage for both the Residential and Commercial customer classes for all districts using based on the years 2017-2019. This includes the effects of significantly reduced usage in 2019, and is higher than the level proposed by MAWC. The usage levels should be updated for 2020 with data from the true-up audit. (Meyer Direct p. 39).

- a. Residential Revenue – What is the appropriate number of meters for fixed or customer charge to be used for revenues?

Position: The MIEC does not take a position regarding the appropriate number of meters to be used for residential revenues.

- i. Non-Residential Revenues – What is the appropriate annualized number of meters level for each revenue class?

Position: The MIEC does not take a position regarding the appropriate number of meters to be used for non-residential revenues.

7. **Sewer Utility Revenues** – What are the appropriate revenues to use to determine the increase or decrease in sewer service revenue requirement?

- a. What is the appropriate number of units to be used for fixed or customer charge?

Position: The MIEC does not take a position on this issue.

8. **Rate of Return/Capital Structure**

- a. Return on Common Equity – What is the appropriate return on common equity to be used to determine the rate of return?

Position: The MIEC does not take a position on this issue.

- b. Capital Structure – What capital structure should be used to determine the rate of return?

Position: The MIEC does not take a position on this issue.

- c. Debt/Preferred Stock Rates/Costs – What Debt/Preferred Stock Rates/Costs should be used to determine the rate of return?

Position: The MIEC does not take a position on this issue.

9. **Amortizations** –

- a. AFUDC regulatory amortization – What is the appropriate treatment of AFUDC regulatory amortization in this case?

Position: The MIEC does not take a position on this issue.

10. **Main Break Expense** – What is the appropriate amount of main break expense to be included in the cost of service?

Position: The MIEC does not take a position on this issue regarding the amount of main break expense. However, the MIEC notes that MAWC has not explained excessive loss of water on some of its systems. Main breaks and unaccounted for water can have a significant impact on rates. Accordingly, the MIEC recommends that the Commission require MAWC to submit to Staff, OPC and other interested parties an annual report that details main breaks and lost and unaccounted for water by major service area. This report should include a detailed explanation if water exceeds 20 percent on an annual basis for any of its major service territory to determine if lost water is due to a recurring event. (Meyer Rebuttal pp. 11-12).

11. **Maintenance Expense** – What is the appropriate amount of Maintenance Expense other than main break expense should be included in the cost of service calculation?

Position: The MIEC does not take a position on this issue.

12. **Outside Services** – What is the appropriate amount of expense related to outside services that should be included in the cost of service calculation?

Position: The MIEC does not take a position on this issue.

13. **Postage Expense** – What is the appropriate amount of postage expense to include in the cost of service calculation?

Position: The MIEC does not take a position on this issue.

14. **Tank Painting Expense** –

- a. Tank Painting Expense – What is the appropriate amount for tank painting expense to be included in the cost of service calculation?

Position: The Commission should require MAWC to use a five-year average of tank painting expenses ended 2019 of \$1,427,020, updated through the true-up period

(2016-2020) to the extent that no unusual circumstances occurred. (Meyer Surrebuttal p. 16)

- b. Capitalization – Should tank painting expense be capitalized going forward?

Position: The Commission should reject MAWC’s proposal to capitalize tank painting expenses. This proposal would inappropriately allow MAWC to earn a profit from those dollars. It is also inconsistent with historical treatment of tank painting as an expense. The Commission should require that MAWC include a normalized level of tank painting expenses in cost of service. (Meyer Direct pp. 32-33)

15. **Income Tax Gross Up Factor** – Should the income tax gross-up factor include consideration of uncollectibles and PSC assessment?

Position: The Commission should reject the income tax gross-up factor proposed by MAWC, which improperly includes the uncertain effects of uncollectibles and PSC assessment. (Meyer Direct pp. 41-42)

16. **Service Company Costs** –

- a. Sale of New York American – Should service company costs be increased to account for the sale of New York American by American Water Works?

Position: The MIEC does not take a position on this issue.

- b. American Water Works Officer Expense – Should the Commission authorize MAWC to recover officer expense for MAWC’s corporate officers?

Position: The MIEC does not take a position on this issue.

- c. Credit Line Fee Charge – Should the Commission authorize MAWC to recover credit line fee charges with American Water Service Company as a service expense?

Position: The MIEC does not take a position on this issue.

17. **Property Tax** –

- a. Property Tax Expense - What is the appropriate level of property tax to be included in rates?

Position: The Commission should require that property taxes paid on December 31, 2019 should be included in the test year (December 31, 2019) and update period (June 30, 2020) revenue requirement calculations (Meyer Direct p. 20)

- b. Property Tax Tracker - Should the Commission implement a property tax tracker?

Position: The Commission should reject MAWC's proposed property tax tracker, consistent with the Commission's prior decisions. (Meyer Direct p. 22)

18. Purchased Power – What is the appropriate level of expense for purchased power in the cost of service calculation?

Position: The MIEC does not take a position on this issue.

19. Insurance Other than Group – What is the appropriate amount of insurance expense to recover in rates?

Position: The MIEC does not take a position on this issue.

20. Uncollectible Expense – What is the appropriate amount of uncollectible expense to recover in rates?

Position: The MIEC does not take a position on this issue.

21. Pension & OPEBs –

a. What is the appropriate amount of Pension & OPEB expenses to be included in rates?

Position: The MIEC does not take a position on this issue.

b. What is the appropriate amount to include in OPEBs for retiree reimbursements?

Position: The MIEC does not take a position on this issue.

22. Lobbying Expense – What is the appropriate amount of payroll tied to lobbying expense?

Position: The MIEC does not take a position on this issue.

23. Incentive Compensation (APP & LTPP) – Should incentive compensation related to earnings per share (EPS) and other financial goals be included in the cost of service calculation?

Position: The MIEC does not take a position on this issue.

24. Employee Benefits (ESPP) – What is the appropriate treatment of the ESPP in regard to the cost of service calculation?

Position: The MIEC does not take a position on this issue.

25. Payroll Expense –

a. Employee Positions – Should the Commission include currently vacant and temporary payroll positions when calculating MAWC's operating expense?

Position: The MIEC does not take a position on this issue.

- b. Service Company Payroll – What level of payroll for American Water Service Company personnel should the Commission include in rates?

Position: The MIEC does not take a position on this issue.

26. **Employee / Management Expense** – What level of employee / management expense should be included in the calculation of cost of service?

Position: The MIEC does not take a position on this issue.

27. **Credit Card Fee Expense** – Should the Commission include credit card fees in the calculation of cost of service?

Position: The MIEC does not take a position on this issue.

28. **Dues and Donations** – What is the appropriate amount of dues and donations expense to be included in the cost of service calculation?

Position: The MIEC does not take a position on this issue.

29. **Rate Case Expense** –

- a. Sharing of Cost – Should rate case expense be shared?

Position: The MIEC does not take a position on this issue.

- b. Expense - What amount of rate case expense should be borne by the ratepayers?

Position: The MIEC does not take a position on this issue.

- c. Normalization Period – What is the appropriate normalization period for recovering rate case expense?

Position: The MIEC does not take a position on this issue.

30. **PSC Assessment** – What is the proper methodology and amount that should be included for the Missouri Public Service Commission assessment?

Position: The MIEC does not take a position on this issue.

31. **Production Costs**

- a. Purchased Water – What is the appropriate amount of purchased water expense to recover in rates?

Position: The MIEC does not take a position on this issue.

- 32. **Leases** – What is the appropriate level of expense for leases to include in the cost of service calculation?

Position: The MIEC does not take a position on this issue.

- 33. **Transportation** – What is the appropriate level of expense to include in the cost of service calculation for transportation related to fuel?

Position: The MIEC does not take a position on this issue.

- 34. **Waste Disposal** – What is the appropriate amount to include in the cost of service calculation for waste disposal expense?

Position: The MIEC does not take a position on this issue.

- 35. **Valve/Hydrant Maintenance** – How should valve and hydrant maintenance be recorded in the general ledger moving forward?

Position: The MIEC does not take a position on this issue.

- 36. **AFUDC** –

- a. AFUDC Calculation – What is the proper calculation of the Allowance for Funds Used During Construction (AFUDC) rate?

Position: The MIEC does not take a position on this issue.

- b. Rate Base Adjustment – Should rate base be adjusted to reflect a corrected AFUDC rate?

Position: The MIEC does not take a position on this issue.

- c. Adjustment to Capital Structure – If short-term debt is not applied to Construction Work In-Progress (CWIP) first, then should short-term debt be included in MAWC's capital structure?

Position: The MIEC does not take a position on this issue.

- 37. **COVID-19 Accounting Authority Order** –

- a. Recovery – How much, if any, of MAWC’s COVID-19 AAO should the Commission approve for recovery in MAWC’s rates?

Position: The MIEC does not take a position on this issue; however, as noted in item (b) below, recovery of interest payments on MAWC’s COVID-19 pandemic loan from American Water Works should be partially denied. (Meyer Rebuttal p. 6). Additionally, increased charges from Ameren Water Works’ service company assigned to Missouri operations should be reduced to eliminate the effects of Ameren Water Works selling its New York operations. (Meyer Rebuttal pp. 8-9)

- b. Interest Expense – Should interest expense be recoverable in rates as part of the COVID-19 AAO agreed to in Case No. WU-2020-0417?

Position: The Commission should deny MAWC recovery through of interest payments for MAWC’s COVID-19 pandemic loan from American Water Works for all interest expense since the beginning of June, 2020. This is because American Water Works increased its dividend at that time, showing that any liquidity concerns that might have been caused by the COVID-19 pandemic no longer exists. (Meyer Direct pp. 2-4)

- c. Amortization – Over what period should the COVID-19 AAO be amortized?

Position: The MIEC does not take a position on this issue.

38. System Delivery –

- a. Water Loss – What is an acceptable level of water loss for the MAWC systems?

Position: The MIEC does not take a position on this issue.

- b. Water Loss Applied to Production Costs – What is the appropriate water loss to apply to chemicals, and fuel and power expense?

Position: The MIEC does not take a position on this issue.

- c. Main Break Audit – Should MAWC conduct annual audits regarding its water main breaks?

Position: The MIEC does not take a position on this issue.

- d. Water Loss Audit – Should MAWC conduct period audits for service areas with greater than 20% lost or unaccounted for water?

Position: The MIEC does not take a position on this issue.

39. **Depreciation** – What are the appropriate depreciation rates and resulting expense that should be applied?

Position: The MIEC does not take a position on this issue.

40. **Affiliate Transactions** – Should MAWC be required to file a Cost Allocation Manual with the Commission?

Position: The MIEC does not take a position on this issue.

41. **Low-Income Pilot Program** –

a. Should the Commission maintain the current Low-Income Rate pilot program?

Position: The MIEC does not take a position on this issue.

b. Should the Commission authorize MAWC to expand its Low-Income Rate pilot program?

Position: The MIEC does not take a position on this issue.

c. What is the appropriate design of the Low Income Rate?

Position: The MIEC does not take a position on this issue.

42. **Inclining Block Pilot Program** –

a. Should the Commission re-authorize MAWC’s inclining block pilot program in its Mexico service area?

Position: The MIEC does not take a position on this issue.

b. What are the appropriate blocks for the inclining block rate pilot program?

Position: The MIEC does not take a position on this issue.

43. **Revenue Stabilization Mechanism (RSM)** –

a. Should the Commission approve a Revenue Stabilization Mechanism for MAWC? And if so, how should the RSM be structured in terms of revenue requirement, included customer classes, the calculation of refunds, the inclusion of production costs, or other factors?

Position: The Commission should reject implementation of an RSM. The RSM is an improper mechanism designed to guarantee a level of utility profits and is more properly called “a profit enhancer mechanism” (Meyer Surrebuttal p. 8). Missouri is

clearly providing adequate support to shareholder earnings without the addition of a “profit enhancer”. The RSM would have the effect of at least two improper trackers: one to ensure a certain level of revenues to MAWC, and one for recovery of changes in MAWC’s water production costs without consideration of all relevant factors (Meyer Rate Design Direct pp. 10, 12)

- b. If so, is there a change in business risk that may be taken into account in setting MAWC’s authorized return on equity?

Position: The RSM would have the effect of reducing or eliminating much of MAWC’s business risk, and if the Commission approves the RSM despite the objections of MIEC and the other parties, the Commission should correspondingly reduce MAWC’s authorized return on equity (Busch Rebuttal p. 17)

44. Water Rate Design

- a. Single Tariff Pricing / District Specific Pricing – Should the Commission keep the current water district structure, or adopt single tariff pricing for the water customers?

Position: The Commission should reject MAWC’s proposal for single tariff pricing.

- b. Industrial Class – Should MAWC create an industrial customer class (Rate L)? Should the Commission eliminate Rate J and begin the migration of customers that do not qualify for a new Rate L to Rate A?

Position: The Commission should reject MAWC’s proposal to create a Rate L class in this case. In the future, the Commission should examine creation of an additional large user tariff, but only if based on an accurate cost of service study, which MAWC has failed to submit in this case. (York Direct, pp. 26-27)

- c. Class Costs –

- i. What is the appropriate cost of service for each customer class?

Position: The appropriate cost of service for each customer class cannot be properly determined in this case because MAWC’s class cost of service study provides inadequate, provides insufficient information and is inaccurate. (York Direct, p. 26)

- ii. What is the appropriate methodology for conducting the class cost of service study?

Position: The Base-Extra Capacity cost allocation method used by the Company is a reasonable approach. However, the Company’s class cost of service study in this case is unreasonable and inaccurate because it ignores cost-causation and fails to provide sufficient information to confirm that costs

have been functionalized, classified and allocated consistently. (York Direct, p. 17)

- d. Customer Charge – What is the appropriate customer charge for each customer classification?

Position: The MIEC does not take a position on this issue.

- e. Commodity Charge – What is the appropriate commodity charge for each customer classification?

Position: The MIEC does not take a position on this issue.

- f. Sunnydale Rate Designation – Should Sunnydale be placed on Rate J, or in the alternative, Rate J1?

Position: The MIEC does not take a position on this issue.

45. Sewer Rate Design

- a. Sewer Districts – What is the appropriate rate structure for the sewer service districts?

Position: The MIEC does not take a position on this issue.

Respectfully submitted,

/s/ Diana M. Plescia

Diana M. Plescia

Missouri Bar No. 42419

Curtis, Heinz, Garrett and O'Keefe

130 S Bemiston - Suite 200

St. Louis, MO 63105-1913

Phone: 314-725-8788

Fax: 314-725-8789

Dplescia@chgolaw.com

Attorney for

**Missouri Industrial Energy Consumers
(MIEC)**

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile, or electronically mailed to all parties and or counsel of record in this case.

/s/ Diana M. Plescia