

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

In the Matter of Missouri-American Water	)	
Company's Request for Authority to	)	File No. WR-2022-0303
Implement General Rate Increase for Water	)	File No. SR-2022-0304
and Sewer Service Provided in Missouri	)	
Service Areas	)	

**MECG POSITION STATEMENT**

COMES NOW, the Midwest Energy Consumers Group, (“MECG”) and for its positions on the issues provides the following. MECG has provided positions on certain issues and based upon the testimony that has been filed to date. That said, however, MECG reserves the right to take positions or supplement its positions in the context of briefs based upon evidence elicited during the evidentiary hearing.

**LIST OF ISSUES**

**Issue 1: ROE / Capital Structure / Cost of Debt:** What is the appropriate return on equity to be used to determine the rate of return? What capital structure should be used to determine the rate of return? What is the appropriate cost of debt to use to determine the rate of return? Should the authorized rate of return be adjusted to consider the Commission’s approval/disapproval of MAWC’s request for a Revenue Stabilization Mechanism (“RSM”) and/or a Post in Service Carrying Cost Capitalization Mechanism?

**Position:**

**MECG agrees with the positions advanced by OPC witness Murray. Therefore, the Commission should authorize a return on equity of 9.0% applied to a capital structure of 40.45% common equity and 59.55% long-term debt.<sup>1</sup>**

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<sup>1</sup> Murray Direct, pp. 40, 48.

As Mr. Murray testifies, American Water’s utility subsidiaries have a lower business risk than that of electric and gas utilities. American Water largely offsets these lower business risks by incurring more financial risk (i.e. the use of debt). However, American Water does not directly loan all the debt it issues through AWCC to its operating subsidiaries. Instead, AWCC makes affiliate loans to American Water, which in turn infuses these funds in its subsidiaries as equity capital. This affiliate financing transaction is an attempt by American Water to charge MAWC an equity return on much lower costs associated with American Water’s debt financing transactions. The Commission can protect MAWC’s ratepayers from this unfair and unreasonable financing practice by appropriately setting MAWC’s ratemaking capital structure consistent with American Water’s targeted common equity ratio of approximately 40%.<sup>2</sup>

**Issue 2: Regulatory Policy Matters/Mechanisms:**

- a. **Discrete Adjustments:** What, if any, discrete adjustments should the Commission make related to matters that will be known and measurable prior to the operation of law date in this case?

**Position:**

MAWC seeks discrete adjustments for many items through May 31, 2023, which is beyond both the test-year and true-up period in this case.<sup>3</sup> The Commission should deny each of MAWC’s requested discrete adjustments.<sup>4</sup> These adjustments would in effect be a future test year. MEGC opposes these adjustments because they depart from Missouri’s historical

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<sup>2</sup> Murray Direct, pp. 47-48.

<sup>3</sup> Selinger Direct Test. 21-25

<sup>4</sup> Robinett Rebuttal Test. 8-11; Bolin Direct Test. 7-9; Bolin Rebuttal Test. 13-14, 16; Bolin Surrebuttal Test. 6-8.

test-year with a true-up with the known and measurable standard and present legal, policy, and practical issues, including: abandoning the known and measurable standard, abandoning the used and useful standard, and impacting regulators ability to review the costs included in rates due to information asymmetry and timing. These discrete adjustments are contrary to good policy and should be rejected.

- b. **Regulatory Deferrals:** Should MAWC be allowed to defer depreciation expense as soon as new plant investment is placed into service? Should MAWC be allowed to capitalize post-in-service carrying costs?

**Position:**

**No. Currently MAWC recovers a large percentage of plant additions incurred between rate cases through the Water and Sewer Investment Rate Adjustment (“WSIRA”), thus the WSIRA mechanism provides sufficient earnings protection to MAWC’s plant additions.<sup>5</sup> Allowing this deferral is unwarranted, offers no benefit to customers and should be rejected.**

- c. **Revenue Stabilization Mechanism (RSM) / Decoupling:** Should the Commission approve a RSM for MAWC? 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 RSM proposed by MAWC in this case should be rejected. MAWC’s proposed RSM is a guarantee of revenues without a corresponding reduction in ROE. RSMs shift risk**

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<sup>5</sup> Bolin Rebuttal, p 17-23; Bolin Surrebuttal, p 2-5.

from the utility to the customers and removes the customers' ability to control their own bill. MAWC is already encouraging conservation without the need of an RSM.

- d. **Production Cost Tracker (if not in RSM):** Should MAWC be allowed to implement a production cost tracker?

**Position:**

**It is well established that the Commission's authority to utilize deferral accounting (the deferral of costs from the one period for recovery in a subsequent period is limited.**

**Under historical test year ratemaking, costs are rarely considered from earlier than the test year to determine what is a reasonable revenue requirement for the future. Deferral of costs from one period to a subsequent rate case causes this consideration and should be allowed only on a limited basis. This limited basis is when events occur during a period which are extraordinary, unusual and unique, and not recurring.<sup>6</sup>**

**The Commission has repeatedly held that deferral mechanisms are limited to costs that meet an "extraordinary" standard. This limited basis is when events occur during a period which are extraordinary, unusual, and unique, and not recurring. This standard has been upheld by the Missouri Court of Appeals. The Company's request in this case does not meet that standard and should be rejected.**

- e. **Bad Debt Cost Tracker:** Should MAWC be allowed to implement a bad debt cost tracker?

**Position:**

**No, as indicated above – for "trackers" – all deferral mechanisms are limited to costs that meet an "extraordinary" standard. Bad debt expense is an ongoing cost of service item**

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<sup>6</sup> *Report and Order*, Case No. EO-91-358, issued December 20, 1991, 1 Mo.P.S.C. 3d, 200, 205 (emphasis added)

incurred by all major utilities. Bad debt expense does not meet the criteria of when a tracker is appropriate.<sup>7</sup>

**Issue 13: Class Cost of Service:**

**Cost of Service Studies:** What are the appropriate allocation factors to be used to determine the revenue requirement allocation? Should the Commission utilize the Class Cost of Service Studies filed in this case to determine the appropriate allocation of the revenue requirement to the various customer classes? If so, what should be the allocation of the revenue requirement to each class? How should the revenues associated with special contracts be treated in developing the class cost of service?

**Position:**

**The Commission should adopt the recommendations of MIEC Witness York. This includes: 1) Purchased Power expenses be allocated using Factor 6, instead of Factor 1; 2) Fixed Power and Pumping expenses be allocated using Factor 3, instead of Factor 2 (The Company has agreed to this adjustment, but it is unclear they have made this correction in the models); 3) the Rate J distribution multiplier used to develop Factor 4 be corrected to reflect the length of distribution mains serving these customers, rather than being based on water consumption as proposed by MAWC; 4) depreciation expense and plant investment in mains sized 10-inches to 16-inches be assigned to the Distribution functional cost category instead of Transmission, consistent with the classification of mains in MAWC's annual reports.<sup>8</sup>**

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<sup>7</sup> Bolin Rebuttal, p 2-8.

<sup>8</sup> York Direct, pp. 2-3.

The revenues associated with special contracts should be treated as proposed in the MAWC study consistent with prior cases. It appears that the Commission Staff has included special contract customers in its CCOS studies by embedding those revenues in the industrial customer revenues. These special contracts are subject to the provisions of contracts and should not impact the revenues of other rate J customers when performing the CCOS.

**Issue 14: Rate Design:**

- f. **Meter Charge Consolidation:** What meter charges should be used?
- g. **Single Tariff Pricing:** Should the Commission consolidate Rate Class A across St. Louis County and non-St. Louis County customers?

**Position:**

**No, the Commission should reject MAWC's proposal to consolidate Rate Class A.**

Respectfully,

**/s/ Tim Opitz**

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**Certificate of Service**

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to all counsel of record this 21<sup>st</sup> day of February 2023:

**/s/ Tim Opitz**

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