

APPENDIX A

THE HISTORY OF RATE DESIGN FOR MAWC SINCE 1989

A review of the single tariff pricing vs. district-specific pricing debate as it relates to MAWC, begins with a discussion of the “old” Missouri Cities Water Company (Missouri Cities). In approximately 1989, in Commission Case No. WR-89-178, et al., *In the matter of the application of Missouri Cities Water Company of St. Charles, Missouri, for authority to file tariffs designed to increase rates for water service to customers in the Missouri service area of the Company.* (October 4, 1989). (Unreported), Missouri Cities proposed a system of uniform rates that set uniform service charges for all its water districts¹, along with a differential volumetric rate for softened water versus unsoftened water, and separate, higher volumetric rates for Brunswick. The parties to the case reached a stipulation on the rate design issue. Although the stipulation made no significant progress toward a uniform rate, Missouri Cities and OPC supported uniform rates to one degree or another and recognized some of the benefits as a basis for recommending approval of uniform rates (albeit only a partial approval in the case of OPC) Report & Order, p. 2, 3.

In approximately 1990, in Case No. WR-90-236, Missouri Cities again proposed uniform rates, but then tempered the proposal by developing an “equalization” rate, which, when added to the uniform rate, effectively resulted in the same district-specific rates as were approved in the previous case. *In the matter of Missouri Cities Water Company*, 30 Mo. P.S.C. (NS) 363 (October 12, 1990). This case was revenue neutral, that is, the newly proposed rate design was not intended to increase or decrease overall company revenues, but merely to implement the

¹ In 1989, Missouri Cities provided water service to the following five (5) areas or districts: Brunswick, Mexico, Platte County, St. Charles County, and Warrensburg.

uniform rate with an “equalization” rate adjustment. The Commission approved the uniform rate tariff with an equalization rate adjustment in this case stating as follows:

The Commission has reviewed the evidence in this matter and finds that the proposal to establish a system-wide rate for water service is reasonable. These tariffs would not make everyone’s water bill the same. This proposal would only make future rate increases the same. That is, current differences in rates among the districts would remain the same but the increases would be spread equally among all customers. The Commission finds also that the proposal to establish equalization rates to maintain the current differentials between Company districts is also reasonable. The Commission agrees with Public Counsel that the proposal will allow Company to spread future increases in rates on a system-wide basis while maintaining the current rate differential which will reduce rate shock in future cases and limit cross-subsidization. Spreading the costs to all Company customers will also allow Company greater flexibility in timing plant additions.

The Commission agrees with Public Counsel that the equalization rates should stay in effect until some future date. Even though an equalization rate might change because of changed billing determinants, the Commission finds that the current rate differential should be maintained. This matter can be reviewed in some future rate case.

30 Mo. P.S.C. (NS) at 365.

The next Missouri Cities rate case was in approximately 1991 (Case No. WR-91-172). *In the matter of Missouri Cities Water Company*, 1 Mo. P.S.C. 3d 119 (September 20, 1991). The Report and Order summarized the position of the parties on rate design as follows:

Company, Public Counsel, Warrensburg and the City of St. Peters urge the Commission to stay with Company’s “uniform” rate design, a design which this Commission approved in Company’s revenue neutral rate design case, No. WR-90-236. Platte County Intervenor would have the Commission adopt “full” uniform rates.

1 Mo. P.S.C. 3d at 144. The Commission further observed “The aim of the parties in the rate design case, including OPC, was to formulate a design which would eventually lead to uniform Company-wide rates, and according to OPC, ‘single tariff’ filings.” *Id.* at 144. The Commission’s statement of policy at that time was as follows:

The Commission continues to support the concept of system-wide rates for Company, and in this respect is of the opinion that Staff's proposal to establish a system-wide flat rate for Company's minimum monthly charge and private fire charge is a step in the right direction.

Id. at 147.

In approximately 1992 (Case No. WR-92-207), Missouri Cities again proposed to spread an increase to all districts under the uniform rate, but to maintain the equalization rate component. *In the matter of Missouri Cities Water Company*, 2 Mo. P.S.C. 3d 60 (January 8, 1993). The Commission decision in that case maintained the equalization rate component since “. . . Missouri Cities has not completed its first ‘building cycle’ since the implementing of uniform rates barely a year ago in Case No. WR-91-172.” 2 Mo. P.S.C. 3d at 89. Again, the Commission expressed a desire, at some future date, to implement uniform rates. After completion of this case, Missouri Cities was acquired by MAWC, See *In the Matter of the Application of Missouri-American Water Company for approval of its acquisition of the common stock of Missouri Cities Water Company*, 2 Mo. P.S.C. 3d 305 (July 30, 1993).

The first consolidated case for MAWC after acquiring the Missouri Cities' properties was in 1995 (Case No. WR-95-205), *In the matter of Missouri American Water Company*, 4 Mo. P.S.C. 3d 205 (November 21, 1995), in which the Company proposed a “stepped” implementation of single tariff pricing for the seven (7) districts of the merged Company². Three parties to the case, Company, Staff and OPC, joined in a stipulation in an effort to resolve the single tariff pricing issue by implementing a three step implementation plan. After hearing testimony on the issue, the Commission concluded:

The Commission finds the proposed move toward single tariff pricing for

² Those seven (7) districts included the five (5) districts previously served by Missouri Cities, plus Joplin and St. Joseph.

Missouri-American and all of its districts, as jointly agreed to by the Staff, Missouri-American and OPC and as, to some degree, supported by all Intervenor, is therefore in the public interest

Id. at 226.

As a result of the Stipulation and Agreement in Case No. WR-95-205, MAWC began a three step process toward full implementation of single tariff pricing. In the first step, MAWC implemented uniform rates in its St. Joseph, Joplin, Platte County and St. Charles Districts immediately upon the conclusion of the case. Rates in the Mexico and Brunswick Districts were lowered, but they were still above the uniform level established for the other four districts. Rates in Warrensburg were increased but they were still below the level of the uniform rates. In the second step, which occurred one year after implementation of the rates set in Case No. WR-95-205, (approximately December 5, 1996), rates in the Warrensburg District were again increased, and the rates in Mexico and Brunswick were reduced so that the overall impact on MAWC was revenue neutral.

In the third step (and consistent with the Stipulation), MAWC proposed implementation of uniform rates for all of its districts in its 1997 rate case filing (Case No. WR-97-237 et al.), *In the matter of Missouri American Water Company*, 6 Mo. P.S.C. 3d 549 (November 6, 1997). In its Report and Order, the Commission approved a rate design based upon single tariff pricing given the record in that case. However, the Commission also expressed a desire to make a more detailed comparison of the methodologies before making a final commitment to single tariff pricing. The Commission stated as follows:

The difficulty for the Commission is that, without a district specific cost study there is no way to compare the resulting rates under STP with the resulting rates under more traditional ratemaking. The Commission is left with unsupported allegations from both sides of the controversy as to which method is theoretically

superior.

6 Mo. P.S.C. 3d at 556.

The Commission agrees with OPC that the distinction between costs which are directly assignable to specific customer groups, and costs which are joint and common costs cannot be made without a detailed cost of service study. The Commission also agrees with OPC that it can only properly evaluate the advantages and disadvantages of a uniform rate design if it has the necessary information for a clear understanding of the design's financial impact.

Id at 557.

Subsequently, on November 20, 1997, the Commission issued its Order Establishing Class Cost of Service Study and Rate Design Case and Proceeding Notice in Case No. WO-98-204. As a result of the proceedings in that case, the Commission found as follows:

Although the Commission's decision in Case No. WR-97-237 adopted a rate design that used STP, the Commission declined to announce what approach it would use during MAWC's next rate case. The record indicates that it is anticipated that the St. Joseph water treatment plant currently under construction may be added to the rate base in MAWC's next rate proceeding. This, in itself, is sufficient reason for the Commission to defer its decision on this issue.

8 MoPSC 3d 394, 397(November 2, 1999).

Given the significant uncertainties associated with the exact amount of rate base that will be included in rates in the next rate case, and the effects, if any, of the proposed merger of MAWC's parent with the parent of St. Louis County Water Company, the Commission will not attempt to decide the rate design issue until the next rate case.

Id at 397.

In 2000, MAWC filed another rate case for its seven (7) water districts and proposed to maintain the single tariff pricing rate design then in effect. (Case No. WR-2000-281), *In the Matter of Missouri-American Water Company*, 9 MoPSC 3d.254, (August 31, 2000).³ Of

³ Although, MAWC had acquired the St. Louis County Water Company and United Water Missouri, Inc. around the time of the filing of this rate case, MAWC had not had sufficient time to incorporate or merge the St. Louis County

significance to the rate design issue in this case, was MAWC's request to recover the costs associated with its recent completion of an approximate \$70 million water treatment plant and related facilities in the St. Joseph District. Numerous parties intervened in the case. The City of St. Joseph and the St. Joseph Area Public Water Supply Districts supported MAWC's proposal to maintain single-tariff pricing. Virtually all of the other intervenors, including Staff and OPC, opposed STP and supported district specific pricing or something close to it. The Commission, on a three to two vote, decided the issue as follows:

The Commission will move away from STP and toward DSP. One factor for consideration in determining just and reasonable rates is public perception. The testimony adduced at the Local Public Hearings held in this matter was strongly in favor of DSP. MAWC, therefore, must set its rates separately for each service area in order to recover the appropriate revenue requirement for each service area. As the Company requested, no phase-in of rate increases shall be permitted. In moving toward DSP, however, the Commission will adhere to the principle that no district receive a rate decrease. (9 MoPSC 3d 291)

The Commission later clarified its position that "no district will receive a rate decrease" by stating that the Joplin District, which would otherwise receive an overall rate decrease under pure district-specific pricing will "contribute \$880,000 toward the total water system increased revenue requirement . . ." (Order of Clarification, p. 2, issued September 12, 2000)⁴

A number of parties sought review of various aspects of the Commission's Report and Order.⁵ As it relates to the issue of rate design, the Circuit Court of Cole County affirmed the Commission's decision to switch from single tariff pricing to district-specific pricing, but

and Jefferson City properties into its existing operations.

⁴ Although no district received an overall rate decrease, some rates to certain customer classes within a district did receive a rate decrease as a result of the Commission's adoption of the Staff's Class Cost of Service Study. (Order of Clarification, p. 2)

⁵ Initially, ten (10) Petitions for Writ of Review were filed in three (3) different counties. After issuing a Writ of Prohibition, the Missouri Supreme Court allowed seven (7) Petitions for Review to proceed in the Circuit Court of Cole County.

remanded as to its decision not to decrease the level of rates in the Joplin District finding that the Commission had not supported its decision with adequate findings of fact:

Ultimately, the Commission explained its decision regarding the Joplin rates in its Report and Order on Second Remand⁶ as follows:

FINDINGS OF FACT

* * *

14. The cost of service is simply a guide used to set rates. A just and reasonable rate, under the circumstances of this case, is one that moves away from single-tariff pricing, but tries to mitigate the resulting rate shock. One way to accomplish such a result is for “no district [to] receive a decrease in rates when another district is receiving an increase. Any extra revenues collected from districts paying more than their cost of service [should] be allocated to the smaller districts in a way that balances the rate increases among those [under-recovering] districts.

15. The Joplin district produces revenue substantially in excess of its cost of service, and has done so since Missouri-American’s last rate case.

16. Holding the Joplin district at current rates is reasonable to help offset the increases to the citizens of Brunswick, Mexico and Parkville.

* * *

CONCLUSIONS OF LAW

* * *

11. The Commission concludes that the rates paid by Joplin ratepayers prior to the Report and Order in this case were lawful and not discriminatory. They did not become discriminatory because they were not reduced, while rates in other districts increased. They did not become discriminatory even though it was demonstrated in the case that Joplin (along with some other districts) contributes more in revenue to the state-wide system than it costs to provide service, as that was true of the rates prior to this case. Joplin was not singled out to receive no reduction – no district received a reduction. Therefore, the Commission concludes that the rates charged to Joplin ratepayers in this matter are fair and reasonable and do not discriminate against Joplin ratepayers. (footnotes

⁶Case No. WR-2000-281, issued December 4, 2007.

omitted)(Order, p, 8, 12)

Although Joplin appealed the Commission's Report and Order on Second Remand, the Circuit Court of Cole County affirmed the Commission's decision. Thereafter, Joplin sought further review by the Missouri Court of Appeals – Western District, but later dismissed its appeal prior to any decision being issued by that Court.

In 2003, MAWC filed a general rate for its water districts which now totaled nine (9), as the St. Louis County Water Company and the Jefferson City Waterworks Company (f/k/a United Water Missouri, Inc.) had been merged with MAWC. *In the matter of Missouri-American Water Company's Tariff to Revise Water and Sewer Rate Schedules*, 12 MoPSC 3d. 409, (April 6, 2004). That rate case was ultimately resolved by Stipulation of the Parties. With regard to revenue requirements, the Parties agreed that there would be no revenue increases for any of the Water Districts, but that the Joplin District would receive a \$350,000 revenue reduction. With regard to the issue of rate design, the Commission made the following specific findings:

The Rate design Stipulation and Agreement filed on January 7 addressed, in addition to rate design, inter-district subsidies, consolidated billing, a customer class study, an interruptible industrial rate for the Joplin District, and elimination of the minimum usage amount from the Jefferson City District tariffs and some corresponding adjustments to the volumetric rates for that district. The agreed rate design is based on the current rate design, with certain adjustments. No rate adjustments will be made in the St. Louis County District, the St. Charles County District, and the Jefferson City District. Only the customer classes receiving adjustments are referred to below. . . .

The agreed rate design is revenue-neutral, that is, it redistributes the current revenue requirement for each district. Any increase or decrease in district-specific revenue requirements must be evenly distributed across the classes in the form of equal percentage changes to each revenue classification for each customer class and by applying a uniform change to each volumetric rate component for each revenue classification.

The Rate Design Stipulation and Agreement provides that the Brunswick District will receive a subsidy of \$213,000 from the St. Louis County District. There will be no other

inter-district subsidies. (12 MoPSC 3d 412))

MAWC's next general water rate case was filed in 2006 and included the water operations of Warren County Water & Sewer Company. *In the matter of Missouri-American Water Company's Request for Authority to Implement a General Rate Increase for Water Service Provided in Missouri Service Areas*, MoPSC Case No. WR-2007-0216 (October 4, 2007). Although the issue of rate design for all ten (10) water districts was settled by way of Stipulation, the Commission made the following observation as it addressed certain "allocation of cost" issues raised by the City of Joplin:

As a result of the compromises in Global Agreement, the allocation of costs to Joplin is actually less than it would be under a strict application of district-specific costs, resulting in a revenue increase for the Joplin District that is far less than it would be under a strict district-specific cost of service allocation. Joplin's main professed concern with the Global Agreement was that the resulting increase for Joplin was somehow discriminatory. Given that Joplin would receive a much lower revenue increase from the Global Agreement than it would receive using strict district-specific pricing, there is no credible argument that the Global Agreement is discriminatory. (footnote omitted) (Report and Order, p. 72-73)

MAWC's 2008 water rate case was settled by way of Stipulation. *In the matter of Missouri-American Water Company's Request for Authority to Implement a General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas*, Case No. WR-2008-0311 (November 14, 2008). The only rate design issue of significance was the Agreement of the Parties to merge the St. Louis County and St. Charles County rate districts into one district, to be known as the St. Louis Metro District. (Unanimous Stipulation and Agreement, p. 3)

MAWC's 2009 rate case was also settled by way of Stipulation. *In the matter of Missouri-American Water Company's Request for Authority to Implement a General Rate Increase for Water Service Provided in Missouri Service Areas*, Case No. WR-2010-0131 (June

16, 2010). Although the Commission accepted the Stipulation, it expressed concern regarding the wide variance in rates among MAWC's service territories, stating as follows:

. . . the Commission notes that the settlement's effect on the average residential customer varies widely among MAWC's service territories . . . While the record contains substantial and competent evidence weighing in favor of the settlement's provisions, it does not describe the facts that lead to such disparity of rates. Therefore, the Commission will order a report as follows.

Staff, MAWC, and the Office of the Public Counsel shall jointly file a report setting forth, for each service in each service territory, the underlying facts that support each territory's cost of service. Such details may include, but are not limited to, variations in infrastructure requirements, age of each system, number of customers, or differences in water treatment to make water potable. Also, the report . . . will estimate a single-tariff rate based on comparable usage for the average residential customer. (Report and Order, p. 16)

On October 15, 2010, Staff, MAWC and OPC filed their Joint Report on Cost of Service in Case No. WR-2010-0131 which provided the cost and rate information requested by the Commission. That Joint Report was later transferred to the instant docket on or about October 18, 2010.