

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

In the Matter of Missouri-American Water	)	
Company's Request for Authority to Implement	)	<u>Case No. WR-2017-0285</u>
General Rate Increase for Water and Sewer	)	Case No. SR-2017-0286
Service Provided in Missouri Service Areas.	)	

**MAWC'S STATEMENT OF POSITIONS**  
**AS ALL ISSUES**

COMES NOW Missouri-American Water Company (MAWC, Missouri-American, or Company), and, in accordance with the Missouri Public Service Commission's (Commission) *Order Modifying Deadline to File Statement of Positions*, issued February 20, 2018, states the following as its Statement of Positions as to ALL issues, as described in the List of Issues, *Order of Witnesses*, *Order of Cross-Examination and Order of Opening Statements*, and as further amended by the parties:<sup>1</sup>

**Overview & Regulatory Policy**

MAWC has filed this case primarily to address the need to make capital investments to continue to meet its obligation to provide safe water and wastewater services to its customers throughout the State of Missouri and, also, to address ongoing revenue losses brought about by declining water use per residential customer. Although the Company has been successful at controlling expenses, it has not been enough to overcome the increase in revenues necessary to meet its service obligations in the most cost-effective way to best serve the long-term interests of its customers. Because MAWC faces significant regulatory lag under the historical ratemaking practices employed by the Commission, the Company has not received the funding levels to

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<sup>1</sup>“Tax Cut and Jobs Act 2017” will move to Monday, March 5, after Lead Service Line Replacements; 7. Production Costs- Waste Disposal and, 20. Allocations will move to Tuesday February 27, before Property Tax.

support capital investment and improved water efficiency that best serve the long-term interests of its customers.

The Company's overarching goal, and the objective of this case, is to put in place ratemaking practices – to include, a rate stabilization mechanism and the use of a future test period – in order to provide MAWC a realistic opportunity to collect its revenue requirement as determined and authorized by the Commission. This will allow MAWC to continue to provide high quality water and sewer services in the most cost-effective way through the replacement, operation, maintenance and rehabilitation of assets for current and future customers.

The Company currently invests between \$90 and \$180 million annually in system improvements and infrastructure. MAWC has directly invested \$1.2 billion in capital between 2007 and 2017 in the State of Missouri. For example, over 142 miles of new water mains have been installed in the last three years. This level of investment in Missouri has tremendous statewide impacts including jobs, spending on goods and services, system reliability and improved customer service. Authorized returns on equity (ROE), equity ratios, and the resultant equity cost rates have a very real influence in how capital allocation decisions are made in the real world. MAWC wants the Commission to understand the very real consequences if it were to adopt a ROE and equity ratio that together are so out of step with reality and returns awarded in other jurisdictions.

Finally, the Company is proposing further consolidation of tariff pricing for its water and sewer districts, which will over time moderate district-specific impacts that occur with large capital investments.

*Norton Dir., all; Norton Sur., all.*

**1. Future Test Year – What is the appropriate test year for purposes of determining MAWC’s cost of service in this case?**

**MAWC Position:** No Missouri statute directs what test year must be used by the Commission in setting rates. The courts have indicated that the determination of what test year to use, and how to adjust it, is a fact question within the discretion of the Commission. *See State ex rel. GTE North, Inc. v. Missouri Public Service Com'n*, 835 S.W.2d 356, 370. (Mo. App., W.D. 1992). Thus, the Commission has flexibility based upon the facts before it and it need not have one approach that it applies to every rate case. "[T]he Commission must make an intelligent forecast with respect to the future period for which it is setting the rate; rate making is by necessity a predictive science." *State ex rel. Missouri Public Service Commission v. Fraas*, 627 S.W.2d 882, 886 (Mo.App. W.D. 1981).

MAWC recognizes that the adoption of a future test year would represent a departure from past practice for this Commission.<sup>2</sup> However, under current circumstances, MAWC’s rate base and expenses are increasing, and its revenues are declining, as it moves forward in time. Therefore, the relationship between revenues, expenses and rate base that may exist in an historical test year will not exist in the first year rates will be in effect.

As the National Association of Regulatory Commissioners (NARUC) has recognized, the unique position of water utilities makes them particularly appropriate candidates for the use of a future test year. The Commission should not hesitate to employ the future test year for MAWC because it would properly match revenues, expenses and rate base in the period in which rates are

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<sup>2</sup> It is not novel across the country. Staff witness Oligschlaeger recognizes that “at least 15 and possibly up to 20 state public utility commissions (PUCs) use future test year approaches as a matter of general policy [and that] [o]ther public utility commissions may use future test years in some circumstances, but not necessarily as consistent policy.” (Oligschlaeger Re., p. 4) *See also Jenkins Dir.* p. 13, ll. 17-18 (“At American Water, 9 of the 14

being set.

*Jenkins Dir., p. 3-16; Jenkins Reb. Rev., p. 2-31; Jenkins Sur., p. 2-25.*

*LaGrand Reb. Rev., p. 2-3.*

*Aiton Sur., p. 3-5.*

**2. Rate of Return**

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

**MAWC Position:** While the historical authorized returns are in the range of 9.50 percent to 10.50 percent, forward-looking analyses demonstrate that the higher end of the range of returns is reasonably 10.80 percent. Relying on that range of results, it is necessary to consider the relative risks of MAWC and the proxy companies. If MAWC does not have the benefit of RSM, future test year ratemaking, and the Company's proposed stand-alone equity ratio, the risks of this company are greater than the proxy group and would be at the high end of this range. To the extent that the Commission authorized RSM and relied on a future test year, MAWC would be more comparable to the proxy group.

Taking into account the cost rates for long-term debt (5.24%), preferred stock (9.70%) and common equity, the appropriate *pro forma* weighted cost of capital, or fair rate of return, for MAWC applicable to its jurisdictional water utility rate base is 8.07% as of May 31, 2019.

*Bulkley, Dir., all; Bulkley Reb., all; Bulkley Sur., all.*

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

**MAWC Position:** The appropriate capital structure should be calculated using 13-month averages for the future test year. The pro forma May 31, 2019 capital structure is composed of 48.92% long-term debt, 0.05% preferred stock, and 51.03% common equity. This capital

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jurisdictions in which our regulated companies operate authorize the use of a future test year.”)

structure should be used to calculate the WACC because it reflects the capital that will be in place to fund the Company's rate base during the period new rates will be in effect.

*Rungren, Dir., all; Rungren Reb., all; Rungren Sur., all.  
Bulkley Dir., p 51-57; Bulkley Reb., p. 45-53.*

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

**MAWC Position:** MAWC's cost of preferred stock for the future test year ending May 31, 2019 is 9.70%. MAWC's cost of long term debt for the same period is 5.24%.

*Rungren Dir., p. 15, 17; Sch. SWR-1.*

**3. Usage Normalization – What is the appropriate level of normalized residential usage that the Commission should adopt?**

**MAWC Position:** The Commission should adopt the normalized residential usage amounts developed by Company Witness Gregory P. Roach for purposes of setting rates in this proceeding. Mr. Roach performed a rigorous statistical analysis of MAWC's residential customer usage for a ten (10) year period of time - first analyzing "base," non-weather sensitive usage and then analyzing "non-base" weather sensitive usage components. Base (or non-weather sensitive) usage is defined as the residential average usage per customer measured over the period of December through April of each year, a period in which there is no appreciable outdoor usage of water. Non-base or weather sensitive usage is the amount of actual usage above base usage. Mr. Roach's analysis shows there is a clear trend of declining base usage among MAWC's residential users, attributable to several key factors including the increasing prevalence of government mandated low flow (water efficient) plumbing fixtures and appliances in residential households, customers' conservation efforts and conservation programs implemented

by various government entities, MAWC and others. This decline in residential usage is not unique to MAWC and has been observed by Mr. Roach for all of the American Water Works Company, Inc. (American Water) operating subsidiaries. The failure to acknowledge and adjust for this decline in residential base usage has caused MAWC to consistently and substantially under recover its authorized revenue requirement. Accordingly, it is critical that the Commission adopt the residential usage levels proposed by the Company in this case if MAWC is going to have a reasonable opportunity to earn its authorized revenue requirement.

*Roach Dir., all; Roach Reb., all; Roach Sur., all.  
LaGrand Reb. Rev., p. 7-11.*

- 4. Water Utility Revenues – What are the appropriate revenues to use to determine the increase or decrease in water service revenue requirement?**
  - a. Residential Revenue – What is the appropriate number of meters for fixed or customer charge to be used for revenues?**

**MAWC Position:** The appropriate number of meters for fixed or customer charges to be used for revenues should be based on a twelve (12) month average of the meter count for 2017, as the Company has more active meters in June than in December. Annualizing to a point in time such as the number of meter counts at June or December, rather than using a twelve (12) month average, will either overstate or understate number of residential fixed charges because it will not take into account that seasonal change in meter counts.

*LaGrand Reb., p. 11-12.*

- i. What is the appropriate number of residential meters for District 1 quarterly customers?**

**MAWC Position:** In calculating the number of meters for District 1 it is important to pro-rate revenues from those charges for quarterly billed customers that are only active for a portion of a

calendar quarter. Otherwise, present rate revenues will be overstated. For example, in 2017 there were 69,698 pro-rated residential bills sent out. These bills resulted in \$467,774 less revenue than if the meters had been in service for the entire calendar quarter. The failure to adjust for these prorated meter bills overstates present rate revenue by the same amount.

*LaGrand Reb. Rev., p. 11-12.*

**b. Non-Residential Revenues**

**i. What is the appropriate usage to use for Rate J and Rate A?**

**MAWC Position:** The appropriate usage to use for Rate J (large commercial, industrial and public authority) and non-residential Rate A (small commercial, industrial and public authority) customers is the actual annual usage for those customer classes for the test period used.

*LaGrand Dir., p. 13-16; LaGrand Reb. Rev., p. 12-19; LaGrand Sur., p. 15.*

**ii. What is the appropriate annualized number of meters level for each revenue class?**

**MAWC Position:** See position statement for Issue No 4.a. above.

**iii. Should MAWC not use the prorated meters for District 1 quarterly customers?**

**MAWC Position:** Pro-rated meters should be used for District 1 customers for the same reason stated in MAWC's position statement for Issue No. 4.a.i. above.

**iv. Should the usage from Water District 2 in Audrain County be allowed or disallowed in calculating the sale for resale in District 1?**

**MAWC Position:** The test year usage from Water District 2 in Audrain County ("Water District") should be eliminated from MAWC's cost of service determination in this case. The Water District has decided to drill its own wells and is constructing a new water tank. The Water District initially indicated it expected to stop purchasing water from MAWC by the end of 2017,

but completion of the project has been delayed and the Water District now anticipates that it will stop purchasing water from the Company in April, 2018, before the operation of law date in this case. Accordingly, any revenue received from the Water District during the test year should be eliminated from cost of service as it is not reasonably expected to continue after rates set in this proceeding become effective.

*LaGrand Dir., p. 15-16; LaGrand Reb. Rev., p. 19.*

- 5. 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 charges?**

**MAWC POSITION:** MAWC has calculated fixed or customer charge revenue for its sewer customers based on number of units rather than number of customers, as number of customers does not accurately capture all of the fixed charge revenue the Company is receiving. For example, an apartment building with twenty (20) apartments could be one (1) customer, but would be billed as twenty (20) units. Therefore using number of customers will understate the present rate revenues.

*LaGrand Reb. Rev., pp. 19-20.*

- 6. System Delivery**
- a. What is an acceptable level of water loss for the MAWC systems?**
- b. What is the appropriate water loss to apply to chemicals and fuel and power expense?**

**MAWC Position:** Non-Revenue Water (“NRW”) is water that has been produced and is “lost” before being metered for customer use. MAWC employs a water loss prevention strategy which is focused on improving leak prevention, pressurization management, leak detection, metering



changes and testing, plant control points for flow, tracking un-metered usage and pipeline management. System water loss is not only due to pipe leakage but also to other factors such as unauthorized use (including theft) and unmetered authorized use such as flushing and firefighting use at the hydrant. Thus, absolute water losses can increase from year to year even when a utility is focused on addressing pipe leakage.

The reliance in this case that MIEC places in the percentage of water losses is a misleading indicator because in a declining use environment a fixed or even declining level of “lost” water may cause the absolute losses to appear to have increased over past periods when that is not the case. In other words, when annual metered use and system delivery are lower (as has been the case for the company over the past 10-year period), the company’s NRW as a percentage of the total will have increased when in fact its actual NRW level has been relatively unchanged.

MAWC contends that a better indicator is the Infrastructure Leakage Index (“ILI”) which is a performance statistic of real water loss. It focuses on physical losses of water related to leaking infrastructure rather than other factors which are unrelated to leakage. A lower ILI rating indicates a lesser degree of leakage. The ILI for MAWC’s St. Louis system in 2017 is lower than it was in 2016 demonstrating that the company’s loss reduction efforts have been effective. Its St. Louis system ILI rating for 2017 was 4.01 which indicates that loss reduction efforts should continue and not be stalled awaiting the results of an investigation of a very complex dynamic, much of which is already understood as explained company witnesses.

Every water delivery system differs in terms of age, soil conditions, pipe materials, source of supply, loss events, etc. Also, weather can play a big factor so MAWC does not believe there

is a uniform “acceptable” level of actual water loss that can be applied to its operations system-wide. There is evidence in this case, however, that there is room for improvement in MAWC’s St. Louis delivery system and that the company’s ongoing efforts to reduce physical water loss should have continued regulatory support through the statutory ISRS process.

MAWC contends that no sound basis for MIEC’s proposed adjustment in revenue requirement for water production expense associated with actual water loss. The Company’s position is supported by Staff.

*Clarkson, Dir. p. 15-21; Clarkson Reb., p. 2-8.  
Aiton Reb., p. 2-8.*

**7. Production Costs**

**a. Waste Disposal – What is the appropriate amount of waste disposal expense to recover in rates?**

**MAWC Position:** Staff’s calculated waste disposal expense of \$2,411,042 for the period ended June 30, 2017, overstates MAWC’s waste disposal expense in this case. Staff’s use of an 18-month average of historical actual charges for waste disposal is inconsistent with its approach in the Company’s last rate case (Case No. WR-2015-0301). It is also inconsistent with the Company’s methodology, which considered historical and anticipated cleaning schedules, actual cost and anticipated cost increases to calculate the waste disposal expense for the future test year, and spread the cost over the number of months scheduled between cleanings. Using this methodology, the Company calculated its waste disposal expense for the period ended May 2018 at \$1,732,876 and for the period ended May 2019 at \$1,762,514.

*Bowen Reb., p.35-36.*

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

**MAWC Position:** \$2,098,827 is the projected uncollectible expense as of May 31, 2019, and is the appropriate amount for the Company to recover in rates. MAWC supports a reduced number of 0.75% net charge offs to water and sewer revenues in this case. Recent trends in uncollectible percentage of billed revenue show a steady decline, and MAWC believes that the uncollectible percentage will not reach the 3-year average of 1.43%.

*Bowen Dir., p. 23-24.*

**9. Payroll**

**a. Number of Employees – What is the appropriate number of MAWC employees to include when setting rates?**

**MAWC Position:** To set rates in this case, 696 full time positions should be used in the calculations. Staff’s recommendation is to calculate labor and labor related expenses based on 662 positions as of June 30, 2017. As of December 31, 2017 – the Commission-approved true-up date for this case, MAWC had 694 full time equivalent (“FTE”) employees, with another scheduled to begin work on January 24, 2018. Additionally, an offer has been made by the Company to fill a position in the engineering department.

The expenses for 12 seasonal workers should also be included in the Company’s labor and labor related expense. The Company has employed these seasonal workers in the past and intends to continue to employ them during the summer going forward.

*Bowen Dir., p. 6; Bowen Reb., p. 3-5.*

**b. Overtime – What is the appropriate amount of overtime to include in rates?**

**MAWC Position:** The Company calculated overtime based on a three-year average of actual overtime dollars. Staff calculated overtime based on a three year average by District. The Company takes no issue in this case with the overtime calculation used by Staff.

*Bowen Dir., pp. 7-8; Bowen Reb., p. 17-18.*

**c. Capitalization Ratio – Should an amount of labor and expenses related to capital investment be capitalized? If yes, what amount should be capitalized?**

**MAWC Position:** Yes, labor and expenses related to capital investment should be capitalized. To eliminate costs associated with capital projects and programs from the labor and labor related expense, the Company multiplies these costs by an O&M percentage that charges the appropriate percentage of labor and benefits to O&M expense. Using the period ended December 31, 2016, the Company’s calculation yielded a capital percentage of 42.3 and an O&M percentage of 57.7. Using the 12-month period ended December 31, 2017, the Company’s calculation yielded a capital percentage of 43.47 and an O&M percentage of 56.53. The 2017 capital percentage is based on the most recent data and should be used in this case.

*Bowen Dir., pp. 6-7; Bowen Reb., p. 16-17.*

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

**MAWC Position:** Yes, performance-based compensation related to earnings per share and other financial goals should be included in the cost of service calculation. Staff’s recommendation to disallow 50% of the annual performance plan (“APP”) for both MAWC and Service Company employees and 100% of the long-term performance plan (“LTPP”) for both MAWC and Service

Company employees should be rejected. Staff's proposed adjustments would disallow \$1,712,542 from the Company's operating expense in this case.

It is important for the Commission to view compensation as a whole. Employee compensation is a necessary cost of providing utility service. Therefore, it should be assessed under the same lens as other necessary operating costs: if it is prudently incurred and reasonable in amount, relative to what the industry pays for the same services, it should be recoverable through rates. The Company's overall compensation levels are reasonable, and customers benefit from both the operational and financial performance metrics. These benefits are outlined on pages 25-28 of the Rebuttal Testimony of MAWC witness Nikole Bowen. It would be unjust and unreasonable to disallow a portion of employee compensation that is demonstrably reasonable as a whole simply because it relates to certain financial goals.

*Mustich Dir., all.*

*Baryenbruch Dir., all.*

*Bowen Dir., p. 6-8; Bowen Reb., p. 22-33; Bowen Sur., p. 2-3.*

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

**MAWC Position:** The cost of service calculation should include \$56,069 for the cost of the Company's Employee Stock Purchase Plan ("ESPP"). The ESPP is open to all active, full- or part-time employees and is effectuated through payroll deductions. Although not a specific cash outlay, the discount received by employees purchasing shares is compensation. Just like the other benefits the Company provides to its employees, the ESPP is part of an employee's overall compensation, and a reasonable expense that should be included in the Company's labor and labor related expense as part of the cost of service calculation.

*Bowen Dir., p. 12; Bowen Reb., p. 14-16.*

**f. Lobbying – What is the appropriate amount of payroll tied to lobbying expense?**

**MAWC Position:** \$274,484 is the appropriate amount of payroll tied to lobbying expense, and this amount should be included in the cost of service calculation. Like most other industries, the utility industry must lobby the legislature to ensure that laws are enacted to represent the best interests of the utility and its customers. Nevertheless, to reduce the number of issues in the case, the Company is willing to forego recovery of the payroll Staff tied to lobbying expense with the exception of the \$63,364 removed from the salary and benefits of MAWC’s President, Cheryl Norton.

*Bowen Reb., p. 6-14, 21-22; Bowen Sur., p. 3.*

**g. Relocation Expense – What is the appropriate amount of relocation expense to be included in rates?**

**MAWC Position:** Both the Company and Staff calculated relocation expense based on a three-year average. The Company takes no issue with the relocation expense calculated by Staff.

*Bowen Dir., p. 19.*

**10. Pension & OPEBs – What is the appropriate amount of Pension & OPEB expenses to be included in rates? Should a portion of non-service components of Pension and OPEB expense be capitalized, and if so, what amount?**

**MAWC Position:** For ratemaking purposes in this case, MAWC initially proposed that the Commission set rates by capitalizing the entire pension and other post-retirement benefits (“OPEB”) amount, which is the traditional approach under GAAP. Following further analysis, MAWC determined that the Financial Accounting Standard Board’s March 2017 Accounting Standards Update for Compensation – Retirement Benefits (Topic ASC 715), which amends the presentation of net periodic benefit cost and which became effective for annual periods beginning

after December 15, 2017, should be used for ratemaking purposes in this case. The ASC 715 rule for GAAP will result in capitalizing only the service cost component and record everything else as a non-operating expense. MAWC has presented a comparison of the Company's position as-filed as well as its proposed change in methodology for the Commission's consideration of the two alternative approaches. Netting the pension and OPEB expense together shows that the Company's preferred ASC 715 methodology reduces benefit expense by \$1,163,890 to \$535,477 based on a forecast through May 2019.

*Watkins Sur., p. 9-12, Sch. JMW-5.*

**11. Insurance Other than Group – Should the cost of a Directors and Officers (“D&O”) liability policy be included in the cost of service calculation?**

**MAWC Position:** Yes, the cost of D&O insurance coverage is properly included in the cost of service calculation, and this expense of \$33,871 should not be disallowed as suggested by Staff. The D&O policy is important for the provision of safe and adequate service, as it would be extremely difficult to recruit qualified individuals to serve as directors and officers without liability coverage applicable to these positions.

*Bowen Dir., p. 22-23; Bowen Reb., p. 40-41.*

**12. Rate Case Expense**

**a. Sharing of Cost – Should rate case expense be shared? If so, what amount of rate case expense should be borne by ratepayers?**

**MAWC Position:** No. The cost of litigating a rate case is a normal and essential cost of service for any regulated public utility. As a regulated utility, MAWC has a legal obligation to provide safe, adequate, and reliable service to its customers. Periodic rate increases are necessary to keep a public utility financially healthy and in a position to continue to provide customers with

safe and adequate service at just and reasonable rates. All reasonable and prudent rate case expenses incurred to achieve that objective should be recovered from customers through rates.

The reasonableness of the Company's rate case expense, like every other issue in this case, must be decided upon the evidence in the record. No party questions the reasonableness of rate case expenses MAWC has or will incur in this proceeding. The only issue is whether the Company should be allowed to include in its revenue requirement 100 percent of such expenses or some lesser amount based on, for example, the percentage of MAWC's rate increase request the Commission ultimately grants, an average ratio of requested versus granted rate increases for all Missouri utilities, or some other equally arbitrary standard.

There is no evidence that requiring a utility's shareholders to bear a portion of rate case expense correlates to less rate case expense or reduces any real or perceived advantage a utility has over other rate case participants. There also is no evidence sharing rate case expense provides an incentive for a utility to file a case that is easier to process. Requiring a utility to share rate case expenses between its customers and shareholders merely punishes a utility for following steps mandated by state statutes and Commission regulations to obtain rate increases to which it is legally entitled and which supports safe and adequate service.

But even if the Commission determines some rate case expenses should be shared between shareholders and customers, that policy should not extend to all such expenses. Rate case expenses incurred to comply with a Commission rule or regulation – such as the Commission's minimum filing requirements and rules requiring utilities seeking rate increases to prepare class cost of service or depreciation studies – should not be shared or apportioned. All expenses incurred to comply with those or similar Commission mandates should be fully



recovered from customers through rates.

Finally, the Company utilizes the services of its Service Company to prepare, submit and process this rate case. Because rate cases are cyclical, the Service Company employs several people to work on rate cases in multiple states. By doing this, individual operating companies like MAWC avoid having to hire full time resources to perform that work. MAWC should not be penalized and none of these costs should be shared or apportioned.

*Jenkins Dir., p. 48-51; Jenkins Reb. Rev., p. 41-47; Jenkins Sur., p. 49-51.  
LaGrand Reb. Rev., p. 37-39.*

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

**MAWC Position:** MAWC believes rate case expenses incurred for this case should be amortized over a period of thirty-six months.

*LaGrand Reb. Rev., p. 37-39.*

**c. Prior Case Amortization – What is the appropriate amount of unamortized rate case expense from WR-2015-0301 to be included?**

**MAWC Position:** MAWC believes the full unamortized rate case expense from the Company's previous case should be amortized over the same thirty-six month period as rate case expense incurred for this case.

*LaGrand Reb. Rev. p. 37-39.*

**13. Property Tax – What is the appropriate amount of property tax to recover in rates?**

**MAWC Position:** MAWC's property tax amount should include the amount of property taxes reflected in MAWC's future test year. MAWC has based this forecast on a historical experience rate applied to forecasted utility plant balances established for the filing in this case.

In the event the Commission does not adopt a future test year, the property tax levels should be true-up through December 31, 2017. Further, in regard to the St. Louis County portion of the property taxes, MAWC's property taxes increased by \$6.1 million. The Company was able to negotiate a two year transition with St. Louis County that resulted in a \$4.4 million increase in 2017, and the full increase of \$6.1 million will be reflected in the 2018 property taxes. The Commission should therefore include the full level of property taxes attributable to St. Louis County in the 2017 true-up.

*Jenkins Reb. Rev., 31-36.*  
*LaGrand Sur., p. 13-14.*<sup>3</sup>  
*Wilde Dir., p. 4-7.*

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

**MAWC Position:** MAWC recommends that the appropriate amount of main break expense is a three (3) year average of actual main break expense for the most recent three (3) years (i.e. 2015, 2016 and 2017). Both Staff (*Foster Sur., p. 3*) and the Office of the Public Counsel (OPC) (*Roth Sur., p. 4-5*) have agreed to use the same three-year average to calculate main break expense. *Bowen Dir., p. 21; Bowen Reb., p. 38-39; Bowen Sur., p. 7-10.*

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

**MAWC Position:** Because water storage tanks are critical for the safe delivery of water as well as for fire protection, MAWC prioritizes tank painting based on periodic inspections. MAWC inspects each tank the third and fifth years after painting and every five years thereafter. Tank painting expense therefore varies from year to year based both on the results of MAWC's

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<sup>3</sup> Through an oversight, Brian LaGrand was not listed as a witness on this issue. Because his Surrebuttal Testimony

inspection program and the size of tanks painted. Therefore, the amount of tank painting expense proposed to be included in the cost of service calculation is based on the projected costs of painting specific tanks for the 2017 through 2019 period plus a three-year amortization of the \$445,990 liability in the Company's tank painting tracker mechanism. The Company calculated tank painting expense for the 12 months ended May 2018 at \$2,050,647 and \$2,626,213 for the period ended May 2019.

*Bowen Dir., p. 21-22; Bowen Reb., p. 39-40.  
Clarkson Dir., p. 27-28; Clarkson Reb., p. 12-13.*

**16. Hydrant Painting – What is the appropriate amount of hydrant painting expense to be included in the cost of service calculation?**

**MAWC Position:** Because MAWC plans to increase hydrant maintenance activities, including hydrant painting, through the future test year, historical levels of hydrant painting expense do not reflect current or planned expenditures for that activity. The future test year level of hydrant painting expense reflects MAWC's proposal to increase the level of painting hydrants to approximately 2,000 hydrants per year, beginning with hiring third party contractors to paint hydrants that still contain lead based paint.

*Clarkson Dir., p. 26; Clarkson Sur., p. 2-3.*

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

**MAWC Position:** \$7,450,065 is the projected maintenance expense excluding main break expense as of May 31, 2018. \$7,547,893 is the projected maintenance expense excluding main break expense as of May 31, 2019, and is the appropriate amount of expense for maintenance

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addresses the issue, MAWC will call him as a witness during the Property Tax portion of the hearing.

expense other than main break expense that should be included in the cost of service calculation.

The first part of the expense is the maintenance cost for the general operation of the business. It also includes the hydrant painting expense discussed above, as well as the cost of cleaning two critical water treatment pipelines that have become restricted with lime scale over the years.

*Clarkson Dir., p. 27.*

*Bowen Dir., p. 20-21; Schedule CAS-13.*

**18. Other Miscellaneous Expenses – For each of the following topics, what is the appropriate amount of related expenses that should be included in the cost of service calculation?**

**a. Contract Services**

**MAWC Position:** MAWC does not believe this is at issue.

*Bowen Dir., p. 19-20.*

**b. Charitable Contributions**

**MAWC Position:** MAWC does not believe this is at issue.

*Bowen Dir., p. 19.*

**c. Promotional Giveaways**

**MAWC Position:** MAWC does not believe this is at issue.

**d. Advertising Expenses**

**MAWC Position:** \$247,210 is the appropriate amount of advertising expenses that should be included in the cost of service calculation. Staff improperly categorized \$29,654 in expenses and failed to categorize \$44,730 in expenses. The Company's expenses for informational advertising, customer education, and community relations are properly included in the cost of service calculation and should not be disallowed as suggested by Staff.

*Bowen Reb., pp. 37-38.*

**e. Postage**

**MAWC Position:** \$2,873,456 is the appropriate amount of postage expenses that should be included in the cost of service calculation. This amount represents the Company's ongoing postage expense based on the number of mailings in the 2016 base year, adjusted for customer growth, acquisitions, and conversion from quarterly to monthly billing for St. Louis County. For just the customers converted from quarterly to monthly billing in 2017, the number of annual bills would increase from 400,000 to 1.2 million.

*Bowen Dir., pp. 18-19; Bowen Reb., p. 36-37.*

**f. Franchise Tax**

MAWC does not believe this is at issue.

**g. Management Expense Charges**

**MAWC Position:** In an effort to reduce the issues in this case, the Company is willing to accept OPC's proposed disallowance of \$218,583 for expenses incurred by "management employees" – defined by OPC as any non-union workers with the exception of independent contractors.

*Bowen Reb., p. 42-43; Bowen Sur., p. 5-7.*

**19. Engage2Excel Awards – Should the Engage2Excel employee awards expense be included in the cost of service calculation?**

**MAWC Position:** Yes. \$36,245 for the Engage2Excel expense should be included in the cost of service calculation. Engage2Excel is the vendor that manages the Company's employee service awards. The employee service award program requires tracking of hire dates and years of service and award management. The cost of the service is reasonable, and the program is important for employee

morale and retention. In turn, the retention of well-trained and motivated employees is very important to the provision of service to MAWC's customers.

*Bowen Sur., p. 4-5.*

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

**MAWC Position:** MAWC corporate costs are those charged to the Company's cost center and allocated to its various water and sewer districts. These costs include such items as American Water Works Service Company costs allocated to MAWC, rents for corporate offices and liability insurance that cannot be directly charged to a particular district's operations. In this case, MAWC proposes to allocate these costs on two factors. The Company has allocated depreciation and amortization on the basis of number of customers. It has allocated all other operating expenses on the basis of the number of service orders. This approach is different than the method MAWC recommended in the last case and, also, the method proposed by Staff in this case. But it is consistent with the Commission's decision in MAWC's last case to adopt a limitation on the allocation of corporate expense to small sewer systems.<sup>4</sup> The primary reason for the change is that further consolidation of tariffs for its water customers has eliminated the need to develop numerous allocation factors to distribute costs. Consequently, MAWC believes its proposal in this case identifies the proper cost driver for purposes of allocations between water and sewer operations. The practical effect of MAWC's proposed allocation methodology as compared to Staff's approach is to allocate \$1,837,325 less to the Company's sewer customers.

*LaGrand, Reb., p. 1-13.*

**21. Affiliate Transactions – Should the Commission order the opening of a**

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<sup>4</sup> Report and Order, p. 29, Case No. WR-2017-0301 (May 26, 2016),

**rulemaking docket to establish affiliate transaction rules for large water utilities?**

**MAWC Position:** No. A rulemaking docket to establish affiliate transaction rules for large water utilities similar to those for electric and gas utilities is unnecessary and inappropriate. First, such a rulemaking is unnecessary because MAWC is the only water company in the State that would qualify as a “large” water utility. Consequently, developing rules for one company would be a waste of Commission, Company and other parties’ time and resources, particularly when concerns regarding affiliate transactions can, and should, be addressed in the context of a Company-specific rate proceeding. Second, affiliate transaction rules similar to those in the gas and electric industry are not appropriate for MAWC. In many cases, electric and gas companies have transactions with affiliates that compete with other, unregulated entities in the market place. For example these transactions may consist of natural gas and power purchases and sales, including electric power supply agreements, capacity supply agreements, energy swaps and energy products and transmission services. MAWC is not in a similar situation. The vast majority (if not all) of MAWC’s transactions with affiliates are its purchases of professional services from the Service Company and MAWC’s access to debt markets through its financing affiliate. The overwhelming evidence shows that MAWC is procuring these services from its affiliates at costs that are well below what it would otherwise incur if it had to purchase those services from unaffiliated third parties or employ full-time employees to provide those services to MAWC.

*Jenkins Reb. Rev., p. 47-48; Jenkins Sur., p. 55-57.  
Baryenbruch Dir., all.*

**22. Lead Service Line Replacement (LSLR) –**

**a. LSLR Activity – Should MAWC continue to replace the customer-owned portion of**

- lead service lines (LSL) while performing water main repair and replacement?
- i. Should the Company prioritize at risk populations?
  - ii. Should the Company be required to disclose known lead service line and when should that notification take place?
  - iii. Should the Company be required to have a written plan about its LSL replacement program?
  - iv. Should the Company be required to provide test kits and what testing parameters should be in place including whether the results should be disclosed to the public?
  - v. Should the Company be required to do a cost-benefit analysis?
  - vi. Should the Company be required to comply with OSHA lead standards?
  - vii. Should the Company be required to have a plan for how they will address excess costs related to unusual site restoration work?
  - viii. Should the Company be coordinating activity with other pertinent entities?
  - ix. Should the Company be required to remove all lead service lines including vacant properties or inactive accounts?
  - x. Should the Company also be replacing worn out customer-owned service lines, copper service lines, and/or galvanized pipes?
  - xi. How should costs be allocated?

**MAWC Position:** Replacing lead service lines in conjunction with main replacements or relocations is not only the most cost-effective, efficient, and responsible way to continue MAWC’s main replacement program, it also best addresses the health and safety concerns associated with partial lead service line replacements. MAWC recommends recording these costs consistent with the guidance found within the Uniform System of Accounts (“USOA”) to account 345 – Services. In accordance with the USOA account 345, capitalized mains include the installation cost of pipes and accessories. Because this account covers “installation costs” it logically includes other restoration cost items such as disturbed pavement, cutting and replacing pavement, pavement base, sidewalks, curbing, that are intrinsically associated with main installation. Restoration costs also generally include costs related to damages to the property of others, and other general costs relating to restoring areas to a safe or prior condition. The replacement of customer-owned lead service lines is similar to the restoration of other customer



property.

Items i –ix are items that have either been considered by MAWC in the development of its program, or will be considered as a part of its program. These types of items are generally left to the Company’s discretion. However, as stated below, MAWC does see value in gaining input from a broad range of stakeholders in regard to these types of issues.

**b. Pilot Program – Should the Commission order the implementation of OPC proposed LSL pilot program?**

**MAWC Position:** No. MAWC’s current approach is the most cost-effective, efficient, and responsible way to address the health and safety concerns associated with partial lead service line replacements. The OPC recommended pilot study would include five “policy tracks” and be limited to “no more than \$4 million annually (or \$8 million in total) [to] be spent on planned full lead service line replacement and third-party administrative costs associated with the collaborative research efforts.” The proposed Pilot Study would result in unnecessary delay, cost, and limitation on the replacement process.

However, MAWC agrees there is value in gaining input from a broad range of stakeholders and recognizes that the health of the public is a primary concern and responsibility that it shares with other entities. MAWC’s ability to effect change with respect to lead exposure is limited, however, to ensuring our water treatment is effective and by doing what the Company can to eliminate lead service lines from the systems it owns. Therefore, MAWC believes it is appropriate to engage in a dialogue with key stakeholders to gain input and refine best practices to best implement its LSLR program rather than engaging in a less focused pilot study.

**c. LSLR AAO Treatment – What recovery approach, if prudent, should be adopted for the AAO amount from WU-2017-0296?**

**MAWC Position:** For the reasons stated below, a combined depreciation rate which includes service life and net salvage rate (the depreciation rate for Account 345 - Services is 2.92%) should be applied to the LSR AAO and the unamortized balance of the deferral should be included in rate base.

**d. Future LSLR Recovery –What the Commission authorize in this case for the recovery of future LSLR activity?**

**MAWC Position:** As stated above, MAWC recommends recording these costs consistent with the guidance found in the USOA to Account 345 – Services. In accordance with USOA Account 345, capitalized mains include the installation cost of pipes and accessories. “installation costs” logically include other restoration cost items such as disturbed pavement, pavement base, sidewalks, curbing, that are intrinsically associated with main installation. Restoration costs also generally include costs related to damages to the property of others, and other general costs relating to restoring areas to a safe or prior condition. In this case, the customer-owned line is restored (replaced with new materials) for safety reasons – to mitigate the potential increased risk of lead contamination following physical disturbances related to infrastructure work.

A combined depreciation rate which includes service life and net salvage rate should be used (the depreciation rate for Account 345 - Services is 2.92%).

*Jenkins Reb. Rev., p. 36-41; Jenkins Sur., p. 46-49.*

*Naumick Reb., all.*

*Aiton Reb., p. 12; Aiton Sur., p. 5-7.*

*LaGrand Dir., p. 21-22.*

**23. Depreciation Expense**

**a. Business Transformation (BT) Depreciation Rate – What is the appropriate depreciation rate for the amounts booked in account No. 391.4 BT Initial Investment?**

**MAWC Position:** The depreciation rate for amounts booked in USOA Account 391.4 (BT – Initial Investment) should be changed from the current 5.0% to 14.3%. However, the Company’s intent is to depreciate the balance in this account to zero at the end of seven years. This can be achieved by either applying the 14.3% depreciation rate to the net book value, or a 10.6% rate to the original cost. Given the speed at which technology and software are evolving, it is not reasonable to assume any software application will have a 20 year useful life, as is implicit in the 5.0% depreciation rate.

The value of an asset is determined by its useful life. It is typical to depreciate IT assets over a relatively short period as compared to fixed assets such as pipes and valves because of the rapid technological changes that render such assets obsolete in relatively short time periods. Of course, the IT systems might have some value at the expiration of 7 years, just as some pipe with a 60 year life may still be rendering service. That, however, is irrelevant to the issue of the appropriate useful life to assign to an asset. By the time this case is completed, these information technology systems will have already been in service at MAWC for over 7 years.

*LaGrand Dir., p. 28-29; LaGrand Reb. Rev., p. 33; LaGrand Sur., p. 17-19.*

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

**MAWC Position: No.** Staff proposes to capitalize certain depreciation expense associated with assets used in construction. The subject assets have already been capitalized and depreciation expense should be recovered in rates. By capitalizing costs that have already been capitalized, the effect is to recover costs associated with shorter lived assets over a longer period of time. The Commission should reject Staff’s proposal to apply a 42.14% capitalization rate to the

depreciation expense associated with USOA Accounts 392, 392.1, 392.2, 392.3, 392.4, 393, 394, and 396.

*LaGrand Re. Rev., p. 33-34.*

**c. Depreciation Rate Change for Sewer Leasehold equipment – Should the Commission order a change in depreciation rate for sewer leasehold equipment?**

**MAWC Position:** MAWC agrees with the recommendation to establish a 5.0% depreciation rate for USOA Account 390.9 – Structures and Improvements - Leaseholds. At the time of the last rate case, the Company did not have any assets in this account, but since then, investments related to this account have been made.

*LaGrand Dir., p. 28-29; LaGrand Reb. Rev., p. 32-34; LaGrand Sur., p. 17-19.*

**24. Rate Base**

**a. Depreciation Reserve – i. What treatment, if any, should the Commission order regarding the net negative depreciation reserve balances?**

**MAWC Position:** There are a few plant accounts that have negative reserve balances (totaling \$459,597 on the water side and \$14,264 on the sewer side). As the Company utilizes mass asset accounting, assets are depreciated until they are retired. This can lead to a situation where depreciation is recorded in a NARUC account for longer or shorter than the useful life. Any over or under depreciation will be corrected when the Company completes its next depreciation study.

*LaGrand Sur, p. 19-23.*

**b. Cash Working Capital –**

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

**ii. Should the revenue lag be adjusted to account for the move from quarterly to monthly billing in St. Louis County?**

**MAWC Position:** The Staff inappropriately calculated the Service Company lag. Instead of the

actual expense lead of 3.26 days used by the Company, Staff utilizes a positive lag of 56.74 days. Staff's lag assumes that the Service Company bills in arrears for the service it provides. This is not the case. In fact, if the Service Company billed in arrears, it would have cash working capital requirements, which would, in turn, require an increase the cost to MAWC.

Additionally, preferred stock payments should be included in the cash working capital calculations as they are a form of financing. Thus, these payments should be included in the same way interest payments are included.

Staff did not adjust the revenue lag in St. Louis County to recognize the move from quarterly billing to monthly that will occur when new rates are effective in this case. Staff notes the Company has not, at this time, converted any customers to monthly billing. Moving customers to monthly billing prior to the end of the rate case would result in significant increases to those customers, which the Company has proposed to mitigate via the change to the monthly and quarterly customer charges proposed in this case.

*LaGrand Dir., p. 25; LaGrand Reb. Rev., p. 26-28; LaGrand Sur., p. 27.*

**c. Jaxson Estates – What is the appropriate amount of plant and CIAC balances to include in rate base?**

**MAWC Position:** The investment made by the Company, which solved a longstanding problem with the treatment plant, should be recognized as rate base, and not additional CIAC as recommended by Staff. Thus, the Staff's proposal to increase the CIAC balance by \$976,114, and the Accumulated CIAC Amortization by \$582,845, should be denied by the Commission.

*LaGrand Reb. Rev., p. 25-26.*

**d. Hickory Hills – Should the unamortized amount of the Hickory Hills acquisition be included in rate base?**

**MAWC Position:** Yes. The Hickory Hills Water and Sewer system had long been a troubled system, which had fallen into receivership in 2007 and was in noncompliance with DNR regulations and permit effluent limitations. The Company’s acquisition solved a long standing problem for the Hickory Hills customers. The Hickory Hills receiver (Gary Cover) had taken out personal loans to cover some of the ongoing costs, and to reimburse two customers for sewer backup damage. The net book value of the assets was less than the amount of the debt, so in order to complete the sale of the assets, the Company was required to pay more than net book value.

Staff previously stated at the time of acquisition, “In Staff’s view, the proposed payment made by MAWC to Hickory Hills that allows Mr. Cover reimbursement of a portion of his outstanding receivership fees and to pay off the personal loan was a reasonable and necessary investment by MAWC to enable transfer assets of a “troubled” utility under receivership to an experienced utility operator.” The full purchase price of the Hickory Hills system is the Company’s investment, and as such, the Company should be allowed its authorized return on this investment by including the full amount in rate base.

*LaGrand Dir., p. 27; LaGrand Reb. Rev., p. 30-32; LaGrand Sur., p. 25-26.*

**e. Woodland Manor – Should the unamortized amount of the Woodland Manor acquisition be included in rate base?**

**MAWC Position:** Yes.

*LaGrand Reb. Rev., p. 26; LaGrand Sur., p. 25-26.*

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

**MAWC Position:** In order to eliminate a failing sewer treatment plant, Emerald Pointe

built a pipeline to a treatment plant owned by the City of Hollister. The pipeline started in Emerald Point's legacy certificated area, continued into certificated area granted for purposes of the pipeline (Case No. SA-2012-0362), and then crossed into the city limits of the City of Hollister. The project was placed into service in January of 2013.

Staff's recommendation in that case concluded the pipeline was reasonable and cost effective. Additional benefits included the elimination of the existing treatment facility, elimination of sewage discharge into Table Rock Lake and having additional capacity available for future customers.

As part of their agreement with the City of Hollister, Emerald Point was required to contribute to the City the portion of the pipeline within the Hollister city limits. The construction costs associated with that portion of pipeline were \$323,321.

The cost of the pipeline that was contributed to Hollister, as part of the agreement to connect to the city, is an investment made by Emerald Pointe that is no different economically than if it owned the pipeline or a treatment plant. However, because Emerald Pointe chose an option that was better for its customers (and, in this case, the environment), Staff and OPC would have the Company forego a return on this investment.

Both Staff and OPC include an amortization, but do not provide rate base treatment to the unamortized balance. The unamortized balance should also be included in rate base. To deny rate base treatment would send the message to utilities to not seek more cost effective options, if the utility ultimately does not own the assets and cannot earn a return on that investment.

*LaGrand Dir., p. 27; LaGrand Reb. Rev., p. 29-30; LaGrand Sur., p. 23-25.*

**g. AFUDC regulatory amortization – What is the appropriate treatment of AFUDC regulatory amortization in this case?**

**MAWC Position:** Staff has proposed elimination of the amortization related to the AFUDC regulatory assets.

There are two types of AFUDC regulatory assets. The first is related to the gross up for AFUDC equity. This regulatory asset reflects the tax gross up of the equity portion of AFUDC that is recorded in construction work in progress. The second is related to the tax gross up treatment required with the implementation of FAS 109, issued in February 1992 relative to AFUDC Debt. Prior to the implementation of FAS 109, AFUDC Debt amounts were recorded to plant net of tax. After 1993, AFUDC Debt amounts are recorded to plant pre-tax instead of net of tax. The regulatory asset account represents the amounts that tax gross up that would have been recorded to plant on investments made prior to 1993

The amortization of these regulatory assets should be included in rates because the balances in these regulatory assets represents AFUDC costs that would otherwise be capitalized into utility plant and recovered through depreciation expense.

*LaGrand Reb. Rev., p. 35-36.*

**25. Tax Cut and Jobs Act of 2017**

**a. Corporate Tax Rate Adjustment – Should the Commission reduce the federal corporate income tax rate reflected in MAWC’s cost of service from 35% to 21%?**

**MAWC Position:** One of the provisions of the Tax Cut and Jobs Act of 2017 (“TCJA”) was to reduce the corporate income tax rate from 35% to 21%. The Company’s future test year revenue requirement calculation reflects the full effect of the tax rate reduction prospectively for the period commencing with the effective date of rates set in this case.



*Jenkins Reb. Rev., p. 31-36; Jenkins Sur., p. 25-30.*  
*LaGrand Reb. Rev., p. 3-4.*  
*Wilde Reb., p. all.*

**b. ADIT Going Forward Treatment – How should the Commission address the portion of current ADIT balances that are overstated on account of the federal income tax reduction?**

**MAWC Position:** The Company is proposing an Accounting Authority Order (AAO) related to the remeasurement of the Company’s accumulated deferred income taxes (“ADIT”). Referred to as the “ADIT Remeasurement AAO.” The ADIT Remeasurement AAO would authorize the Company to (1) record on its books regulatory assets and liabilities, which represent the change in MAWC’s deferred taxes as a result of the TCJA that are subject to the normalization provisions in the TCJA; and (2) maintain these regulatory assets and liabilities on its books until the effective date of the Report and Order in Missouri-American’s next general rate proceeding and, thereafter, until all eligible costs are amortized and recovered in rates. It is anticipated that the remeasurement of MAWC’s net deferred taxes would be expected to result in a net regulatory liability that would be returned to utility customers over the remaining life of the related assets and liabilities, although the precise amount of that benefit is not possible to determine today. Furthermore, the Internal Revenue Service (and other regulatory bodies) might yet issue regulations and regulatory guidance regarding the interpretation of the new tax law that will affect our revenue requirement in the future. Because those changes are as yet unknown and unimplemented, an AAO appears to be the appropriate mechanism to address them.

*Jenkins Reb. Rev., p. 31-36; Jenkins Sur., p. 25-30.*  
*Wilde Reb., p. all.*

**c. Other TCJA Impacts – How should the Commission treat any other cost of service impacts arising from the TCJA besides the federal corporate tax rate**

**reduction and excess ADIT amounts?**

**MAWC Position:** Because rules and regulations implementing the TCJA have not yet been adopted and will not be for some time in the future, the legislation’s full effect on MAWC is not currently known or knowable. All other cost of service impacts of the federal corporate tax rate reduction and its effect on ADIT balances should be deferred for consideration in MAWC’s next general rate case.

*Jenkins Reb. Rev., p. 31-36; Jenkins Sur., p. 25-30.  
Wilde Reb., p. all.*

**d. Are there other items that should be deferred and considered as part of TCJA implementation?**

**MAWC Position:** Because all items affected by implementation of the TCJA are not known or knowable at this time, all other items resulting from the legislation should be deferred for consideration in MAWC’s next general rate case.

*Jenkins Reb. Rev., p. 32-36; Jenkins Sur., p. 25-30.  
Wilde Dir., p. 2-7; Wilde Reb., all.*

**26. AMI Implementation – Should MAWC continue to replace AMR meters with AMI meters?**

**MAWC Position:** Yes. The Aclara advanced metering infrastructure system (“AMI”) allows remote reading of customer meters, and as of June 2017 MAWC had 46,000 meters equipped with this technology. The primary reasons the Company implemented its AMI system were to increase meter reading efficiencies and accuracy and to transition customers from quarterly to monthly billing. AMI also reduces the number of estimated bills, allows the Company and its customers to more quickly identify potential leaks, and allows MAWC to redeploy personnel previously devoted to meter reading to other work.

AMI already has provided benefits to customers and continuing the program will increase those benefits in the future. MAWC should be authorized to continue replacement of existing AMR meters with AMI meters, and all costs of that replacement effort should be included in the cost of service used to set rates.

*Clarkson Dir., p. 21-23; Clarkson Sur., p. 4-7.*

**27. Cloud Computing –**

- a. Should expenses associated with Cloud Computing be booked in USOA account 303 or USOA account 930.2?**
- b. Should the capital costs associated with Cloud Computing be booked in USOA account 303 or USOA account 391.25?**

**MAWC Position:** Cloud computing is the term used to describe off-premise computing solutions. Cloud computing is becoming the primary means of delivering technology and is slowly replacing on-premise computing solutions in the market place. NARUC has passed a resolution stating that “NARUC encourages State regulators to consider whether cloud computing and on-premise solutions should receive similar regulatory accounting treatment . . . .” In this case, MAWC requests that it be granted authority to account for off-premise cloud-based technology solutions the same way it accounts for on-premise technology solutions. This would mean the Company would capitalize implementation services, internal labor, and other fees (such as those for licenses, maintenance and support) that were necessary to bring the asset into service. Assets like this should be recorded to USOA Account 303, intangible plant, and amortized over the length of the service life.

This issue has no revenue requirement impact in this case as the Company is asking for approval of an accounting methodology to apply in the future and not asking for recovery of a particular set of assets or project.

*Jenkins Dir., p. 52-56; Jenkins Sur., p. 51-55.*

**28. Low-Income Rate –**

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

**MAWC Position:** MAWC initially proposed to expand the low income tariff pilot program from its current application to St. Joseph, Parkville and Brunswick, to a state-wide program. However, after review of the testimony provided by both Staff and the Office of the Public Counsel, MAWC agrees with Staff and OPC that the program should be maintained in its current form until at least the next general rate case when additional data would be available to more fully evaluate the effectiveness of the program.

**a. What is the appropriate accounting treatment for the current deferred unamortized balance of the pilot program?**

**MAWC Position:** MAWC suggests that the deferral authorized in Case No. WR-2015-0301 be continued for this program and that the unamortized balance of the existing deferral be amortized over a three year period.

*LaGrand Dir., p. 17; LaGrand Reb. Rev., p. 37; LaGrand Sur., p. 11.  
Heppenstall Reb. RD., p. 10.*

**29. Inclining Block Rates**

**a. Should the Commission authorize the implementation of inclining block rates?**

**b. Should the Commission authorize an inclining block rate pilot program?**

**MAWC Position:** MAWC does not believe there is sufficient information currently available for the Commission to implement inclining block rates in the context of this case. MAWC would support the creation of a working docket which, among other things, will gather the information that the Commission needs in order to determine whether to implement a declining block rate structure or a declining block rate pilot program.

*Jenkins Dir., p. 36-38; Jenkins Reb. RD., p. 2-7; Jenkins Sur., pp. 57-59.  
Heppenstall Dir., p. 7-10; Heppenstall Reb. RD., p. 7-10; Heppenstall Sur., p. 3-4.*

### **30. Revenue Stabilization Mechanism (RSM)**

#### **a. Should the Commission adopt a Revenue Stabilization Mechanism?**

**MAWC Position:** Yes. The Company's proposed revenue stabilization mechanism ("RSM") is designed to allow the Company to collect revenues established by the Commission in this case going forward. The mechanism effectively removes the errors that are inherent in the process of forecasting the test year level of sales. As noted below, these forecasting errors are caused by the changes in volume of water sold due to factors beyond the control of the Company or the Commission (i.e., the Commission has no mechanism in traditional ratemaking to take this into account).

MAWC proposes a RSM with an annual reconciliation, with an annual surcharge or credit as appropriate. Each month the Company would compare the actual metered revenues for the applicable customer classes to the amount of authorized revenues for the applicable classes. MAWC would also compare the actual production costs to the authorized amount of production costs associated with the applicable customer classes. If the actual revenues fall short of the authorized revenues, the difference in the revenue less the production costs would be deferred to a regulatory asset. If the actual revenues were more than the authorized revenues, the difference in the revenue less the production costs would be deferred to a regulatory liability.

The Company also proposed as an alternative an RSM taking the form of a revenue tracker. In that situation, the mechanics and calculations would be the same except the annual reconciliation would not occur. Instead the balances would be deferred until the next rate case and then amortized over a period of time.

The advantage of an annual reconciliation is the annual surcharge or credit addresses the shortfall or over collection of net revenues in a timely manner instead of accumulating multiple years together and then amortizing it over a longer period of time. Also, incorporating any surcharge or credit into base rates by deferring and amortizing would mask or hide any impact to the customer and not drive water efficiency or effective pricing signals.

The Company proposed to include in its RSM the customer classes of residential, commercial, other public authorities and sale for resale for both water and sewer. The Company's position was that customers in Rate A and Rate B should be included in the RSM excluding the small industrial customers in Rate A and all Rate J customers.

To MAWC's knowledge, the appellate courts have never addressed a mechanism similar to the RSM. While parties may cite *State ex re. Util. Consumers' Council of Missouri, Inc. v. Public Service Comm'n*, 585 S.W.2d 41 (Mo. banc 1979) in opposition to the surcharge/credit RSM, that case concerned rate adjustments for the purpose addressing changes in expenses on a going forward basis (changes in fuel costs for electric corporations). The purpose of the RSM in this case is to merely ensure that the company receives the annual revenues the Commission has found to be just and reasonable. The expenses the Company may experience are unrelated to this assessment (other than production costs, the inclusion of which would benefit customers in the situation where usage was than anticipated). It also does not guarantee a return or certain earnings level. Increases in expenses and new investments (assuming no future test year) will still work against the Company's ability to earn its authorized return. The Company will still be incented to manage those expenses and investments to the best of its ability in order to better its opportunity to earn that authorized return.

Moreover, an exception to the fixed rate system is provided in Section 393.130.4, RSMo, for “sliding scale” rates. Section 393.130.4 states:

Nothing in this section shall be taken to prohibit a gas corporation, electrical corporation, water corporation or sewer corporation from establishing a sliding scale for a fixed period for the automatic adjustment of charges for gas, electricity, water, sewer or any service rendered or to be rendered and the dividends to be paid stockholders of such gas corporation, electrical corporation, water corporation or sewer corporation;

In describing a “sliding scale” rate, the Missouri Supreme Court has quoted the following description:

The essential characteristic of this method of regulating the price of gas is by a prearranged automatic and interdependent adjustment of the price to consumers and the rate of dividends to stockholders, whereby for every decrease or increase in the price the stockholders are permitted an increase or suffer a decrease in the rate of dividend.

*Utility Consumers Council of Missouri, Inc., et al. v. Public Service Commission, et al.*, 583

S.W.2d 41 (Mo. 1979), quoting *Bertha A. Mining Co. v. Empire Dist. Electric Co.*, 210

Mo.App.,622, 235 S.W. 508, 511 (1921). The automatic surcharge/credit RSM would provide for such automatic adjustment of rates (on an annual basis) to address the Company’s authorized revenue requirement. That approach would appear to constitute a “sliding scale.”

The proposed RSM will: 1) make MAWC indifferent to selling less water; 2) remove the disincentive to promote water efficiency; 3) reduce the adverse impact of weather variability for both the utility and its customers; and, 4) reasonably insure that revenues for continued water efficiency investments is available.

*Jenkins Dir.*, p. 16-36; *Jenkins Reb. RD* p. 16-19; *Jenkins Sur.*, p. 30-46.

*Watkins Dir.*, p. 3-12; *Watkins Sur.* p. 2-9

*LaGrand Sur.*, p. 11-13.

### **31. Water Rate Design**

#### **a. Single Tariff Pricing/District Specific Pricing – Should the Commission keep the**

**current water district structure, adopt single tariff pricing for the water customers, or return to eight (8) water districts?**

**MAWC Position:** MAWC proposes to consolidate its three (3) existing water operating districts into a single tariff. In MAWC's last rate case the Commission adopted Staff's proposal to consolidate all of MAWC's water districts into three (3) larger districts noting that consolidated pricing helps to meet the needs of all customers by sharing the cost of providing needed services among a larger group of customers making the cost of service more affordable for all. The Commission also found that consolidation will limit rate shock when new infrastructure is installed in a district with a small population. The Commission further found that full single tariff pricing is an attractive option and expressed its desire to examine single full tariff pricing in MAWC's next rate case.<sup>5</sup> All of the benefits of that supported the Commission's decision to implement rate consolidation in the Company's last rate case justify the move, in this case, to single tariff pricing.

*Heppenstall Dir., p. 14-17; Heppenstall Reb. RD., p. 10-15; Heppenstall Sur., p. 4-5. Jenkins Dir., p. 38-48; Jenkins Reb. RD., p. 7-16; Jenkins Sur., p. 59-62.*

**i. Offset Mechanism – If the Commission orders consolidated tariffs for water service, should it also order the implementation of the Coalition Cities' offset mechanism to allow certain service areas to avoid paying certain capital investment costs?**

**MAWC Position:** MAWC opposes the Coalition Cities' proposed offset mechanism. It is bad public policy and attempts to reinstate district specific pricing but in a manner that is not workable, equitable or fully defined. The Coalition Cities' offset mechanism proposal is based on the false premise that customers in certain districts have paid for their system upgrades. But

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<sup>5</sup> Report & Order (Case No. WR-2015-0301) issued May 26, 2016, pp. 27-28.



that is not the case, as those costs are spread out over time through depreciation expense and return on investment. Therefore, these Cities have not fully paid for their upgrades under district specific pricing.

*Heppenstall Reb. RD., p. 12,; Heppenstall Sur. p. 4-5.*  
*Jenkins Reb. RD. p. 16.*  
*LaGrand Sur., p.6.*

**b. Impacts of Pricing Districts on Cities/Service Areas**

**i. If the Commission adopts either MAWC's or the Staff's rate district proposal, should the Commission establish a working group or collaborative process to determine a rate offset for cities/service areas that have borne the costs of their own system upgrades since 2000?**

**MAWC Position:** MAWC opposes a working group or collaborative process to determine a rate offset mechanism as proposed by the Coalition Cities. As noted above, this proposal is nothing more than an ill-conceived method of returning to district specific pricing which the Commission has determined, as a matter of policy, is inappropriate for MAWC. Also, as noted above, the offset mechanism is premised on a false assumption that various service areas have borne all of the costs associated with their own system upgrades.

*Heppenstall Reb. RD., p. 12; Heppenstall Sur., pp. 4-5*  
*Jenkins Reb. RD, p. 16*  
*LaGrand Sur., p. 6.*

**ii. If the Commission adopts either MAWC's or Staff's rate district proposal should the Commission establish a working group or collaborative process to explore capital expenditure tracking mechanisms?**

**MAWC Position:** MAWC is opposed to the establishment of a working group or collaborative process to explore capital expenditure tracking mechanisms for the same reason it is opposed to the rate offset mechanism proposed by the Coalition Cities.

*Heppenstall Reb. RD., p. 12, Heppenstall Sur., p 4-5.*

*Jenkins Reb RD., p. 16.*  
*LaGrand Sur., p. 6.*

**c. Customer Charge – What is the appropriate customer charge for each customer classification?**

**MAWC Position:** In this case, the Company is proposing to continue its statewide, uniform customer charge by customer class and by meter size. However, in order to facilitate the Company's deployment of Advanced Metering Infrastructure ("AMI") and concurrently move quarterly billed customers to monthly billing, the Company proposes to reduce the existing customer charge for 5/8" meters. If the Commission does not approve MAWC's proposal to move quarterly billed customers to monthly billing as it installs AMI metering, then it proposes to maintain its current customer charges.

*Jenkins Reb. RD., p. 19-20.*  
*Heppenstall Dir., p. 10-12; Heppenstall Reb. RD., p. 6-7; Heppenstall Sur., p. 1-3.*  
*LaGrand Dir., p. 17-20; LaGrand Sur., p. 2-6.*

**d. Commodity Charge – What is the appropriate commodity charge for each customer classification?**

**MAWC Position:** After determining the appropriate customer charge(s) and the revenue to be derived there from for each customer class, the Company proposes one-block, uniform volumetric rates for each class that will recover the remaining revenue requirement from each customer class.

*Heppenstall Dir., p.10-14; Heppenstall Sur., p. 4.*

**e. Miscellaneous Service Charges – What are the appropriate amounts for the miscellaneous service charges related to water service?**

**MAWC Position:** MAWC proposes the use of one, state-wide miscellaneous charge schedule for each of the various water services. The Company agrees with the miscellaneous charges

proposed by Staff in rebuttal testimony with the following exception: 1) Service activation and Discontinuance fees outside of normal business hours should be \$159.00; 2) Service restoration involving the Company excavating or installing a new meter or valve should not be limited to reasons of non-payment; and 3) Returned check/non-sufficient funds fee should remain at \$12.00.

*LaGrand Reb. RD., p. 7; LaGrand Sur., p. 9-10.*

**f. Customer Classifications – Should Rate A rate be split into a residential and non-residential rate?**

**MAWC Position:** MAWC is proposing to split its existing Rate A into a residential and non-residential rate. The non-residential rate will cover all commercial, industrial and other public authority customers that do not qualify for Rate J. The separation of Rate A customers between residential and non-residential classes is appropriate for cost allocation purposes, particularly due to the varying demand functions by class.

*Heppenstall Dir., p. 10-11; Heppenstall Sur., p. 6-7.  
LaGrand Dir., p. 18.*

**g. Class Costs – What is the appropriate cost of service for each customer class?**

**MAWC Position:** The appropriate cost of service for each customer class is set forth in the class cost of service study prepared by Company Witness Heppenstall and filed with her Direct Testimony in this proceeding. Ms. Heppenstall's class cost of service study is based on the 2017 and prior Water Rates Manuals published by the American Water Works Association ("AWWA"). It was performed in accordance with generally accepted principles and procedures and results in indications of the relative cost responsibilities of each class of customers.

*Heppenstall Dir., p. 3-10; Heppenstall Reb., p. 2-6; Heppenstall Sur., p. 5-6.*

**h. Private Fire Services – What is the appropriate private fire service rate?**

**MAWC Position:** The Company is proposing one state-wide rate for private fire service that recovers its cost of service as developed by Company Witness Heppenstall in her class cost of service study. Currently the private fire service rate in District 1 (of which Jefferson City is a part) for a two inch (2”) or less service line is \$4.40 per month and a four inch (4”) service line is \$17.50 per month. As a result of the Company’s class cost of service study, the Company is proposing cost-based rates of \$8.98 per month for a two inch (2”) or less service line and \$35.71 per month for a four inch (4”) service line.

*Heppenstall Dir., p. 13.*  
*LaGrand Reb. RD., p. 7-8.*

**i. Purchased Power – What is the appropriate allocator for purchased power costs?**

**MAWC Position:** The AWWA Rates Manual M-1 provides that “the demand portion of power costs should be allocated to extra capacity to the degree that it varies with the demand pumping requirements.” It does not suggest that the total demand portion of power costs should be allocated to extra capacity, only to the degree that it varies with pumping requirements. In response to MIECs criticism of the Company’s class cost of service study, Ms. Heppenstall analyzed MAWC’s electric power bills and determined the difference between the minimum demand charge for the lowest demand month and the demand charges for the remaining months results in approximately 5.5% of the total purchased power expense attributable to extra demand. Therefore, Ms. Heppenstall would support a refinement to her cost allocation that would allocate 5.5% of purchased power cost to the extra capacity function; however, this refinement results in a very minor revision to her study. The results of allocating 5.5% of power costs on an extra

capacity basis reduces her Rate J cost of service by \$24,017 or about 0.14% of the total Rate J costs – a very small and insignificant amount. Consequently, Ms. Heppenstall’s class cost of service study as filed appropriately allocates purchased power costs to the Rate J customers. It is also noteworthy, that this is the same issue raised by MIEC in the Company’s last rate case and rejected by the Commission.<sup>6</sup>

*Heppenstall Reb. RD., p. 4-6.*

**32. Sewer Rate Design**

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

**MAWC Position:** The Company is proposing two tariff groups for sewer service – one for Arnold and one for the non-Arnold sewer districts. In addition, MAWC is proposing to charge all residential sewer customers in the non-Arnold sewer service areas a flat rate each month. The majority of the Company’s non-Arnold sewer customers already pay a flat rate and this change will simplify the sewer billing process for residential customers. The Company is also proposing two different rate groups for the non-Arnold sewer service areas. The first rate would apply to customers in the Maplewood, Fenton, Hickory Hills, Anna, Meadows and Jaxson Estates areas. The second rate would apply to customers in the other non-Arnold sewer service areas. Finally, non-residential customers will pay a fixed charge based on a meter size and a volumetric rate for usage over 6,000 gallons per month. As a result of the Company’s proposed sewer rate design, it is moving from ten (10) different rate structures in the non-Arnold sewer service areas, to two (2) rate groups which MAWC believes is a significant step toward fully consolidated sewer rates.

*Heppenstall Dir., p. 18-19; Heppenstall Reb. RD., p. 17-18; Heppenstall Sur., p. 7.*

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<sup>6</sup> Report & Order (Case No. WR-2015-0301) issued May 26, 2016, pp. 32-33, 41.

*LaGrand Dir., p. 19-20; LaGrand Reb. RD., p. 5-7; LaGrand Sur., p. 7-9.*

**b. Miscellaneous Service Charge – What are the appropriate amounts for the miscellaneous charges related to sewer service?**

**MAWC Position:** MAWC proposes the use of one state-wide miscellaneous charge schedule for each of the various sewer services. The Company agrees with the miscellaneous charges proposed by Staff in rebuttal testimony with the following exception: Returned check/non-sufficient funds fee should remain at \$12.00.

*LaGrand Reb. RD., p. 7; LaGrand Sur., p. 9-10.*

**33. Coordination with Local Municipalities for Water Main Replacement – Should MAWC’s five-year main replacement program approved by the Missouri Department of Natural Resources (its Owner Supervised Program) prioritize the replacement of small dimension mains in Jefferson City and other municipalities that are connected to fire hydrants?**

- a. Should MAWC be directed to provide on a regular basis the following described information to appropriate Jefferson City and other municipalities’ departments:
  - i. MAWC’s annual or multi-year capital expenditure or improvement plan for the Jefferson City and other municipality service areas, and any updates to those plans;
  - ii. Leak studies of the water system in Jefferson City and other municipality service areas;
  - iii. The current pressure and volume model for the water system in the Jefferson City and other municipality service areas and the age of all facilities; and
  - iv. The current and subsequent versions of MAWC’s Resource Supervised Plan.

**MAWC Position:** Through its Owner Supervised Program (OSP”) the Missouri Department of Natural Resources (“DNR”) approves MAWC’s water main replacement program plans for five-year periods. The Company will be renewing its OSP in 2018 and can provide Jefferson City with a copy of DNR’s approval letter, which lists the segments included in the five-year plan by street name. This will provide Jefferson City with a list of areas where MAWC intends to perform main replacements over the plan period, which would enable the city to plan street

paving and improvement projects. The Company also will advise Jefferson City if changes are made to the OSP. And if municipalities other than Jefferson City want similar information, MAWC will work with them to provide it upon request.

MAWC meets annually with approximately 100 municipal, county, and state agencies to inform them of planned main replacements in an effort to minimize both the costs main replacement projects in public roadways and public inconvenience. But there is no need, based on concerns expressed in this case by one city, to require MAWC to regularly share with the 125 municipalities it serves the detailed information identified in this issue.

*Aiton Reb., p. 8-11; Aiton Sur., p. 8-10.*

**34. Cedar City/Jefferson City Fire Protection – Is the proposed pressure valve replacement at the wholesale point of supply for the water system serving the Jefferson City Airport adequate to resolve water pressure losses or fluctuations in that system?**

**MAWC Position:** The Jefferson City Airport is served via a wholesale connection to MAWC's Jefferson City distribution, which means the Company does not have information regarding all factors that contribute to pressure fluctuations and losses at that facility. However, MAWC has identified a pressure reducing valve located near the wholesale supply point as a potential factor. Because that valve is part of its water supply system, the Company has inspected the valve and is moving forward with replacement of the valve. MAWC hopes that replacement, which is scheduled for completion sometime during the spring of 2018, will rectify the problem. However, MAWC will continue to monitor the airport's ongoing problems to determine if additional modifications of the Company's system are necessary.

*Aiton Reb., p. 9.*

**WHEREFORE**, MAWC respectfully requests the Commission consider these

Statements of Position.

Respectfully submitted,



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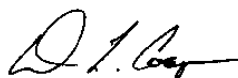
**ATTORNEYS FOR MISSOURI-AMERICAN WATER COMPANY**



## CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail on February 21, 2018, to the following:

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