

**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 TO DAY 1 AND 2 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 the issues to be tried on February 26 and 27, 2018, as described in the *Order of Witnesses*, *Order of Opening Statements*, and *Order of Cross-Examination*, and as further amended by the parties:¹

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 interest of its customers. Because MAWC faces significant regulatory lag under the historical ratemaking

¹“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.

practices employed by the Commission, the Company has not received the funding levels to 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.² 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

² 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

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 being set.

*Jenkins Dir., p. 3-16; Jenkins Reb. Rev., p. 2-31; Jenkins Sur., p. 2-25.
LaGrand Reb., p. 2-3.
Aiton Sur., p. 3-5.*

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 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.

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

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

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.*³
Wilde Dir., p. 4-7.

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

³ Through an oversight, Brian LaGrand was not listed as a witness on this issue. Because his Surrebnuttal Testimony addresses the issue, MAWC will call him as a witness during the Property Tax portion of the hearing.

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.⁴ 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.*

27. Cloud Computing –

- b. Should expenses associated with Cloud Computing be booked in USOA account 303 or USOA account 930.2?**
- c. 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

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

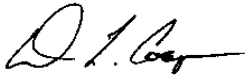
fees (such as those for licenses, maintenance and support) that were necessary to bring the asset into service. Assets like this should be recorded to USOA Account 303, intangible plant, and amortized over the length of the service life.

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.

WHEREFORE, MAWC respectfully requests the Commission consider these Statements of Position.

Respectfully submitted,



William R. England, III, MBE#23975
Dean L. Cooper, MBE #36592
BRYDON, SWEARENGEN & ENGLAND P.C.
P.O. Box 456
Jefferson City, MO 65012
(573) 635-7166 telephone
dcooper@brydonlaw.com

Timothy W. Luft, Mo Bar 40506
MISSOURI-AMERICAN WATER
COMPANY
727 Craig Road
St. Louis, MO 63141
(314) 996-2279
Timothy.Luft@amwater.com

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 20, 2018, to the following:

Office of the General Counsel staffcounsel@psc.mo.gov jacob.westen@psc.mo.gov	Office of the Public Counsel opcservice@ded.mo.gov ryan.smith@ded.mo.gov
Stephanie Bell/Marc Ellinger sbell@bbdlc.com mellinger@blitzbardgett.com	William D Steinmeier wds@wdspsc.com
John B Coffman john@johncoffman.net	David Woodsmall david.woodsmall@woodsmalllaw.com
Marc Poston marc.poston@ded.mo.gov	Edward F Downey/Lewis Mills efdowney@bryancave.com lewis.mills@bryancave.com
Joshua Harden Joshua.Harden@stinson.com	Greg A Campbell/Emily Perez gcampbell@hammondshinners.com eperez@hammondshinners.com
Mark W Comley comley@ncrpc.com	Joseph P Bednar jbednar@spencerfane.com
Leland B Curtis lcurtis@chgolaw.com	Robert Hack/Roger W Steiner rob.hack@kcpl.com roger.steiner@kcpl.com
James M Fischer/Larry W Dority jfischerpc@aol.com lwdority@sprintmail.com	James B Lowery/Wendy Tatro lowery@smithlewis.com AmerenMOService@ameren.com

