

MEMORANDUM

To: Missouri Public Service Commission, Missouri Public Service Commission Staff,
and Missouri American Water Company

From: John A. Robinett, Utility Engineering Specialist
Missouri Office of the Public Counsel

Subject: Office of the Public Counsel's Net Rate Base Estimation and Customer Notice
Concern (Case No. WA-2022-0229)

Date: June 28, 2022

The Missouri Office of the Public Counsel ("OPC") appreciates the opportunity to comment on the acquisition of the water and sewer systems of Monsees Lake Estates Subdivision ("Monsees") by Missouri American Water Company ("MAWC").

In this memo I will discuss two concerns I have related to this application. First I have concerns related to the Missouri Public Service Commission Staff's ("Staff") use of the current ordered depreciation rates for determining the rate base of Monsees' plant-in-service and accumulated depreciation reserve. My second concern relates to providing notice to Monsees' customers. Specifically, I believe that Monsees' customers should be notified that, depending on when this sale is closed, their rates may be subject to change as a result of MAWC's next rate case, Case No. GR-2022-0303.

I take no issue with Staff's evaluation of net rate base for the wastewater assets. Staff's analysis showed that the assets **_____**.

Staff's use of current ordered depreciation rates for projected rate base:

My concern with Staff's calculation of the net rate base of Monsees' plant-in-service and accumulated depreciation reserve is that they do not reflect historical depreciation rates that have been approved for MAWC nor do they reflect how Monsees would have been treated had it been a regulated small water and sewer facility.

If it was Staff's goal to treat Monsees as if it had been under MAWC since it was developed, then Staff has the historical approved depreciation rates that have been ordered for MAWC. These historical depreciation rates could have been used to calculate depreciation reserves for the plant-in-service and would more accurately estimate what reserves would have been over the life of the assets.

If Monsees had been a utility regulated by the Missouri Public Service Commission (the "Commission") prior to this acquisition request by MAWC, based on my review of Staff's recommendation and MAWC's feasibility study Monsees does not have enough customers to qualify as a large water utility in this state. Since Monsees' customer count does not reach the level of a large water utility, I reviewed MAWC's estimation of revenue for this utility and compared it to the classifications found in the National Association of Regulatory Utility Commissioners

Uniform System of Accounts 1973 revised 1976 in general instruction 1. Classification of Utilities. If it was a standalone regulated entity prior to this acquisition, this instruction classifies Monsees as a Class D utility. Since Monsees would be a Class D small water and sewer system, use of Staff's general depreciation rates for small water and sewer utilities that have been developed over numerous years should be applied to calculate the accumulated reserves in order to determine net rate base for the assets.

OPC estimate of remaining plant in service

I calculated net rate base for the water facilities of Monsees using Staff's general depreciation rates for small water facilities. Utilizing Staff's calculations provided as work papers, I substituted the small water general depreciation rates instead of MAWC's current ordered depreciation rates. My use of the general small water depreciation rates greatly reduces the remaining net book value of the water facility. My calculations yield a net rate base of **_____**. This value is significantly less than the net book value calculated by Staff, **_____** and is in line but under the estimate of MAWC, **_____**.

No determination of rate base in this case:

While I understand that no determination of rate base will be made in this case, I felt the need to provide notice of my concern and potential position for a future case when a determination is to be made. I did not want to surprise the parties with my estimation of net rate base in a future case.

As depreciation expense is accrued monthly, this net rate base number will continue to change until rolled into rates for MAWC and, even then, the net rate base will continue to decrease over time.

Customer notice to Monsees Customers:

Now I will discuss my second concern related to customer notice. It is my understanding that MAWC intends to keep the Monsees customers on their current rates until the systems are rolled into rates as part of MAWC's next general rate case. Staff in their Recommendation states that they will examine Monsees' customers' rates as part of MAWC's next rate case. It is my opinion that the Commission should order notice be provided to Monsees' customers that, depending on when this purchase is closed, they may become subject to the rates that are determined in MAWC's noticed but not yet filed rate case, Case No. WR-2022-0303.