BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

STIPULATION AND AGREEMENT

COME NOW Missouri-American Water Company ("MAWC" or the "Company"), the Staff of the Missouri Public Service Commission ("Staff"), the Office of the Public Counsel ("OPC"), the Missouri Industrial Energy Consumers ("MIEC"), the Midwest Energy Consumers Group ("MECG"), Triumph Foods, LLC ("Triumph"), and the Missouri Division of Energy ("MoDOE") (collectively, the "Signatories"), by and through their respective counsel, and, for their Stipulation and Agreement (this "Stipulation"), respectfully state as follows to the Missouri Public Service Commission ("Commission"):

1. All parties to this rate case proceeding that are not Signatories to this Stipulation have stated that they do not object to this Stipulation. As such, the Commission may treat this Stipulation as unanimous.

2. This Stipulation is being entered into solely for the purpose of settling all contested issues in this case except the issues specifically identified in paragraph 21 below and those issues settled with the Stipulation – Jefferson City Issues filed herein on February 28, 2018.

3. Unless otherwise explicitly provided herein, none of the Signatories shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, including, without limitation, any method of cost of service or valuation determination or cost allocation, rate design, revenue recovery, or revenue-related methodology. Except as explicitly provided herein, none of the Signatories shall be prejudiced or bound in any manner by the terms of this Stipulation in this or any other proceeding.

4. This Stipulation has resulted from extensive negotiations among the parties, and the terms hereof are interdependent and non-severable. If the Commission does not approve this Stipulation

unconditionally and without modification, or if the Commission approves the Stipulation with modifications or conditions to which a party objects, then this Stipulation shall be void and none of the Signatories shall be bound by any of the agreements or provisions hereof.

5. In the event the Commission accepts the specific terms of this Stipulation without condition or modification, the Signatories waive their respective rights to present oral argument and written briefs pursuant to RSMo. §536.080.1,[1] their respective rights to the reading of the transcript by the Commission pursuant to §536.080.2, their respective rights to seek rehearing pursuant to §536.500, and their respective rights to judicial review pursuant to §386.510. These waivers apply only to a Commission order approving this Stipulation without condition or modification issued in this proceeding and only to the issues that are resolved hereby. These waivers do not apply to any issues explicitly not addressed by this Stipulation. The Signatories agree that any and all discussions, suggestions, or memoranda reviewed or discussed, related to this Stipulation shall be privileged and shall not be subject to discovery, admissible in evidence, or in any way used, described or discussed.

6. **Admission of Testimony**: Unless a party otherwise objects to its admission, the Signatories consent to the admission of and request that the Commission admit into the record in this proceeding, without the need for witnesses to take the stand, all written testimony that has been filed herein.

7. **Total Revenue Requirement:** As a result of the settlements codified in this Stipulation, the Signatories agree that MAWC's annual revenue requirement on a total company basis should be increased to $318 million.

a. The revenue requirement of $318 million represents an increase of approximately $38 million over present rate revenues or approximately $24 million over revenues authorized in the last case.

b. For purposes of calculating the revenue requirement of $318 million, the Signatories used

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[1] Unless otherwise noted all statutory references are to the Revised Statutes of Missouri 2016, as currently supplemented.

estimates between the range of 9.5% to 10.0% for return on equity ("ROE").

8. **Infrastructure System Replacement Surcharge (ISRS):** MAWC's current ISRS tariff will be reset to zero as of the effective date of new rates resulting from this proceeding.

a. For purposes of the ISRS only, the overall pre-tax weighted average cost of capital shall be 9.44% (tax grossed-up rate of return). Agreement to use of a "pre-tax" cost of capital for this purpose does not limit in any way any party's ability to challenge recovery of income tax amounts associated with ISRS investments in future ISRS rate proceedings.

b. All ISRS-eligible investments placed in service beginning January 1, 2018 shall be eligible for the ISRS mechanism in accordance with Section 393.1003.1 RSMo.

9. **Billing Determinants:** The billing determinants to be used for establishing customer rates are included as Attachments A and B to this Stipulation.

10. **Revenue Stabilization Mechanisms ("RSM"):** The RSM is no longer an issue in this case, and the Signatories agree that MAWC will not be granted a RSM in this case. MAWC shall not propose or request the use of a RSM prior to the Company's next general rate case. The meaning of the term "RSM" is to be liberally construed to effectuate the purpose and intent of this Stipulation provision.

11. **Tax Cut and Jobs Act of 2017:** The revenue requirement of $318 million includes the change to the current federal income tax expense due to the Federal statutory corporate tax rate reduction from 35% to 21% in accordance with the Tax Cut and Jobs Act of 2017.

a. After the Company's Accumulated Deferred Income Tax ("ADIT") re-measurement is completed, the normalization of excess "protected" ADIT will be calculated over the appropriate time period and consistent with the tax normalization rules and as represented to the IRS. The Company is in the early stages of evaluating the cost and ability to achieve a data plan that would allow it to use Average Rate Assumption Method ("ARAM") as a method for computing and normalizing excess protected ADIT. If not cost prohibitive, and if the records can be established to do so, it is currently MAWC's and the Internal Revenue Code's preference to use ARAM, and MAWC will act as expediently as possible to establish ARAM as its method of accounting for purposes of normalizing excess protected ADIT.

b. By no later than February 28, 2019, MAWC agrees to file a report with the Commission regarding the Company's ability to comply with ARAM accounting. The Company will identify whether it will begin using ARAM accounting, and if it indicates it will not be able to adopt ARAM accounting, explain in detail each reason why itis not able to comply with ARAM accounting.

c. To the extent it does not create a normalization violation, until the normalization begins to be provided to customers, a tracker will capture the normalization that would have occurred in prior periods and will be held until the next rate case. At the time of the next rate case, the tracker balance will be amortized over five years. Tracking of excess ADIT will begin as of January 1, 2018.

d. A separate tracker mechanism will be used to capture all other direct income tax financial impacts of the Tax Cuts and Jobs Act besides the corporate income tax rate change and ADIT re-measurement discussed above. At the time of the next rate case, the tracker balance will be amortized over five years, unless the ADIT is subject to a provision of the tax normalization rules in which case it will be addressed pursuant to either ARAM or the Reverse South Georgia Method ("RSGM"). Tracking of these TCJA impacts will begin as of January 1, 2018.

e. The amortization of regulatory assets related to the National Call Center and Shared Services Center will be amortized over the same period as the unprotected ADIT liabilities, not to exceed ten years. In addition, unprotected plant related items can only be broken out if records to utilize

ARAM can be established. Nothing in this agreement is intended to limit any Signatories' ability to argue what is protected or unprotected in a future proceeding before the Commission.

12. **Reporting:** MAWC agrees to provide annually to Staff, OPC, MIEC, and MECG the Company's usage, revenues, and customer numbers, with said data to be marked and treated as Confidential pursuant to Commission Rule 4 CSR 240-2.135. This information shall be provided at approximately the same time as the Company files its annual report with the Commission. Currently, MAWC provides confidential monthly surveillance reports to Staff. The Company shall now also provide these confidential surveillance reports to OPC.

13. **Affiliate Transactions:** Affiliate transactions are no longer an issue in this case. No party is precluded from discussing the consequences of affiliate relations as they may pertain to other aspects of this case that remain in dispute.

14. **Pensions and OPEBs:** Pensions and OPEBs shall be treated as described in Attachment C to this Stipulation.

15. **Tank Painting Tracker:** The tank painting tracker asset will be treated in the same manner as agreed by the parties in MAWC's last rate case, Case No. WR-2015-0301. The original balance of $1,382,938 at January 31, 2016, began amortization over five years beginning in July 2016, and will continue until June 2021. On the effective date of rates in this rate case, the tracker balance will be adjusted to reflect the activity in the stub period from the cut-off date in the last rate case through the date new rates went into effect in the amount of ($445,990). Annual amortization through June 2021 will be $165,090.

16. **Depreciation Rates:** MAWC shall continue to use the depreciation rates approved in MAWC's last general rate case, Case No. WR-2015-0301. Lead Service Line Replacement ("LSLR") remains a contested issue in this case, and account 345 may or may not be impacted by the final

Commission decision on this issue. Additionally, the depreciation rate for NARUC sewer account 390.9 – "Structures and Improvements – Leasehold" – shall be established at 5.0%. The depreciation rates are included at Attachments D and E to this Stipulation.

17. **Low Income Tariff:** The Signatories acknowledge that the Residential Low-Income Pilot Program implemented by the Company in District No. 2 has been active for a relatively short period of time, and that no meaningful conclusions can be drawn from that Pilot Program at this time. Therefore, the Signatories agree that MAWC should be authorized to continue the Pilot Program as it is currently being administered in District No. 2. In addition, the Signatories agree that MAWC should be authorized to record on its books a regulatory asset that represents the actual discounts provided to those customers participating in the Pilot Program, along with any third-party administrative costs. MAWC shall maintain this regulatory asset on its books until the effective date of rates resulting from MAWC's next general rate proceeding. The amortization period for the deferred regulatory asset associated with the Pilot Program shall be determined in the next MAWC general rate proceeding.

18. **Inclining Block Rates:** The Signatories are concerned that there is insufficient data at this time to warrant implementation of an inclining block rate structure for MAWC. The Signatories recommend that the Commission establish a working docket, at the conclusion of the instant case, for the purpose of gathering the data and/or information necessary to evaluate the appropriateness of implementing inclining block rates in MAWC's next general case for its residential customer class. Such data and/or information may include, but is not necessarily limited to, the following:

1. A residential bill frequency report for each District[2], broken out monthly or quarterly (consistent with customer billing).
2. Residential usage by month or quarter (consistent with customer billing) with the same

[2] Such reports should result in producing data sets of varying levels of granularity such as by district, by service area, by zip code, by customer, etc.

granularity as described in footnote 2.

3. Potential residential rate block structures and price differentials for each District with the same granularity as described in footnote 2.

4. The impact, if any, of such factors such as price elasticity, weather, precipitation, etc., on consumption.

5. A discussion regarding customer communication and education.

19. **Miscellaneous Service Charges:** The Signatories agree that MAWC may implement uniform miscellaneous service charges for its water service as contained in Attachment F to this Stipulation and uniform miscellaneous service charges for its sewer service as contained in Attachment G to this Stipulation.

20. **Special Contracts:** The Signatories agree that the special contracts currently in effect should continue without any material changes, with the exception of the contract with Triumph Foods, LLC, in which the commodity charge will be revised consistent with the confidential Rebuttal Testimony of Staff Witness Matthew J. Barnes.

21. **Remaining Contested Issues:** This Stipulation contains the entire agreement of the Signatories concerning the issues addressed herein. The following issues remain contested at this time and will be presented to the Commission for decision or addressed through a separate stipulation:

1. Allocations – What is the appropriate method to allocate MAWC corporate costs to the water and sewer districts?
2. 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?
  b. Pilot Program – Should the Commission order the implementation of OPC proposed LSL pilot program?
  c. LSLR AAO Treatment – What recovery approach, if prudent, should be adopted for the AAO amount from WU-2017-0296?
  d. Future LSLR Recovery –What the Commission authorize in this case for the recovery of future LSLR activity?

3. 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 water districts?
  b. Impacts of Pricing Districts on cities/service Areas
    i. Offset Mechanism – If the Commission orders consolidated tariffs for water service, should it also order the implementation of the Coalition City Offset Mechanism to allow certain service areas to avoid paying certain capital investment costs?
    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 determine a rate offset for cities/service areas that have borne the costs of their own system upgrades since 2000?
    iii. 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?
  c. Customer Classifications – Should Rate A rate be split into a Residential and a Non-residential rate?
  d. Class Costs – What is the appropriate cost of service for each customer class?
  e. Customer Charge – What is the appropriate customer charge for each customer classification?
  f. Commodity Charge – What is the appropriate commodity charge for each customer classification?
  g. Purchased-Power – What is the appropriate allocator for purchased power costs?

4. Sewer Rate Design

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

22. This Stipulation does not constitute a contract with the Commission. Acceptance of this Stipulation by the Commission shall not be deemed as constituting an agreement on the part of the Commission to forego the use of any discovery, investigatory powers or other statutory powers which the Commission presently has. Thus, nothing in this Stipulation is intended to impinge or restrict in any manner the exercise by the Commission of any statutory right, including the right to access information.

WHEREFORE, the Signatories respectfully request the Commission to issue an Order approving this Stipulation and Agreement and authorizing the Company to file tariffs to implement the terms hereof.

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