BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water Company's Request for Authority to Implement General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas.	))))	Case No. WR-2022-0303

MAWC'S STATEMENT OF POSITIONS

Comes now Missouri-American Water Company (MAWC or Company), and states the following to the Missouri Public Service Commission ("Commission") as its *Statement of Positions* as to issues described in the *List of Issues, List and Order of Witnesses, Order of Opening, and Order of Cross-Examination* filed on February 16, 2023:

POLICY AND OVERVIEW

This filing is primarily driven by the significant capital investments that the Company made and will continue to make since its last base rate proceeding. Since the Company's last base rate case, MAWC has or will invest by the operational of law date in this case approximately $769 million of capital. These investments enhance the safety, reliability and resiliency of Missouri-American's water and wastewater system, support customer service, and maintain the health, welfare, and economic wellbeing of the communities it serves.

The Company must be provided with the opportunity to earn a fair return on its investments and recover prudently incurred costs to continue to attract the necessary capital to support ongoing investments that will enable it to provide safe and reliable service to customers for years to come. However, most of Missouri-American's costs are fixed, while most revenue is variable, collected through volumetric rates charged on a per gallon basis. Further, MAWC is operating in a declining sales, rising cost environment. As a result, MAWC's ability to proactively invest in infrastructure to improve efficiency and continue to serve the long-term best interest of customers is constrained.

MAWC's ratemaking proposals in this case are designed to at least partially address the constraints with the existing ratemaking structure. MAWC is requesting approval of a Revenue Stabilization Mechanism (RSM), an Uncollectible Expense Tracker, a Property Tax Tracker, a Production Cost Tracker, as well as certain discrete adjustments beyond the historical test year period.

The Company's goal is to provide quality water and wastewater services as efficiently as possible today and into the future, and by doing so, to increase the value of the services that are provided to the customers. The Company's proposals in this case mitigate some of the impacts that a historical test year has on the Company's opportunity to collect its authorized return, and properly recognize the plant and expense levels that will be serving MAWC's customers when the new rates take effect.

Svindland Dir., all.

LIST OF ISSUES

1. **ROE / Capital Structure / Cost of Debt:** What is the appropriate return on equity to be used to determine the rate of return? What capital structure should be used to determine the rate of return? What is the appropriate cost of debt to use to determine the rate of return? Should the authorized rate of return be adjusted to consider the Commission's approval/disapproval of MAWC's request for a Revenue Stabilization Mechanism (RSM") and/or a Post in Service Carrying Cost Capitalization Mechanism?

<u>Return on Common Equity</u> – What is the appropriate return on common equity to be used to determine the rate of return?

MAWC Position: In this proceeding, consistent with standalone ratemaking principles, it is appropriate to establish the cost of equity for MAWC, not its parent, American Waterworks (AWK). More importantly, however, it is important to establish a return on equity and capital structure that provide MAWC with the ability to attract capital on reasonable terms, on a standalone basis, and within the AWK system. All the utility operating subsidiaries within the AWK corporate structure compete for discretionary capital. Unless MAWC is provided a reasonable opportunity to earn a market-based return on equity with an appropriate capital structure, it will be at a disadvantage in attracting discretionary capital from its parent company resources.

The appropriate return on equity (ROE) to be used to determine a fair rate of return for MAWC is in the range of 9.90% to 11.25%, as supported by the testimony of Company witness Ann Bulkley. Ms. Bulkley developed her recommendation based on her review of a proxy group of utility companies that face risks substantially comparable to those faced by MAWC. To her proxy group, Ms. Bulkley applied the constant growth form of the Discounted Cash Flow model (DCF), the Capital Asset Pricing model (CAPM), and the Empirical Capital Asset Pricing model (ECAPM). The results of the analyses that Ms. Bulkley developed directly support her estimated cost of equity range. Taking into consideration management performance, the current and prospective capital market conditions, MAWC's capital expenditure requirements, and MAWC's regulatory, business and financial risks as compared to the proxy group, Ms. Bulkley concludes that within the range established by the cost of equity estimation models, an appropriate ROE of 10.50% is reasonable and appropriate in this case.

Bulkley Dir., All; Bulkley Reb., All; Bulkley Sur., All.

<u>Capital Structure</u> – What capital structure should be used to determine the rate of return?

MAWC Position: The appropriate capital structure to use is the stand-alone capital structure of MAWC consisting of 50.43% equity and 49.57% long-term debt. This capital structure should be used to calculate the weighted average cost of capital for MAWC because it reflects the capital that will be in place to fund the Company's rate base during the period of time rates set in this proceeding will be in effect. MAWC's equity ratio of 50.43% is within the range of equity ratios established by the capital structures of the utility operating subsidiaries of the proxy companies as well as the capital structures that have recently been authorized for natural gas and water utilities. A capital structure consisting of 50.43% common equity and 49.57% long-term debt is reasonable considering the variability of the Company's cash flows resulting from factors such as the effect of the Tax Cuts and Jobs Act of 2017 (TCJA), increased capital expenditures, and inflation.

MAWC is a stand-alone business enterprise in all material respects including, but not limited to, its independent state operations, capital investments, management, and corporate governance. As a subsidiary of the larger American Water enterprise, MAWC customers benefit from American Water's size and scale to realize cost savings, the most significant of which includes lower debt costs from the financial services agreement with MAWC's affiliate, American Water Capital Corp.

MAWC's stand-alone capital structure represents the actual debt and equity capital used to finance MAWC's business and is aligned with its peers. The relevant consideration in determining the appropriate capital structure supporting the overall return on capital is the risk associated with the use of funds, not the source of those funds. MAWC's stand-alone capital structure appropriately reflects its distinct risk profile as a stand-alone business enterprise with independent state operations, capital investments, management, and corporate governance. MAWC's stand-alone capital structure allows MAWC to maintain access to low-cost financing through all financing sources.

Use of AWK's consolidated capital structure, as proposed by Staff and OPC, does not reflect the difference in the risk profile of MAWC and AWK, is not reflective of the way in which MAWC is actually operated, is contrary to the dictates of the United States Supreme Court in the *Hope* and *Bluefield* cases, as well as this Commission's precedent in the Spire rate case, and is incompatible with financial theory. Any lower imputed equity ratio than MAWC's actual equity ratio would require a commensurate, upward adjustment in the authorized ROE, negatively affect MAWC's ability to attract discretionary capital, reducing investment to Missouri and weakening the credit metrics for the Company.

Bulkley Dir., pp. 72-80; Bulkley Reb., pp. 19-38; Bulkley Sur., pp. 2-19.
Swiz (Merante) Dir., pp. 4, 10-17; Swiz Reb., All.
Kaiser Reb., pp. 10-13.

<u>Debt Cost Rate</u> – What cost rate for long-term debt should be used to determine the rate of return?

MAWC Position: MAWC's cost of long-term debt for the test year end (including true-up period ended December 31, 2022), as adjusted through May 2023 is 4.50%. This is the actual cost of debt that MAWC will incur and will be obligated to pay on its long-term debt during the period rates set in this proceeding will be in effect.

Swiz (Merante) Dir., pp. 10-12.

2. **Regulatory Policy Matters/Mechanisms:**

   a. **Discrete Adjustments:** What, if any, discrete adjustments should the Commission make related to matters that will be known and measurable prior to the operation of law date in this case?

MAWC Position: Discrete adjustments should be made for the following matters that will be known and measurable prior to the operation of law date in this case, proposed by MAWC:

- Selected capital projects that are not eligible for WSIRA and, will be in service prior to the operation of law date in this case, including annualized depreciation and property taxes related thereto;

- Changes to the Company's capital structure through the operation of law date; and

- Selected known and measurable operating expense adjustments that will be in effect prior to the operation of law date.

The Company's proposed discrete adjustments are designed to include within MAWC's revenue requirement specific known and measurable amounts through the operation of law date in this case. Doing so will better reflect the Company's ongoing cost of service for the period in which rates set in this case will be effective.

Selinger Dir., pp. 20-25.
LaGrand Dir., pp. 6-7;LaGrand Reb., pp. 8-12.

b. **Regulatory Deferrals:** Should MAWC be allowed to defer depreciation expense as soon as new plant investment is placed into service? Should MAWC be allowed to capitalize post-in-service carrying costs?

MAWC Position: Yes. The Company is proposing two regulatory treatments to reduce regulatory lag on plant investments. The first is deferred depreciation, and the second is the capitalization of post-in-service carrying costs. Plant investments that are eligible for the WSIRA mechanism would not be eligible or this treatment.

These mechanisms would attempt to address regulatory lag experienced by the Company when utility investments are placed in service to provide benefits to customers. Such investments immediately result in depreciation, property tax and other expenses being incurred without ever being reflected in customer rates. This lag hinders the Company's ability to earn its authorized return.

To counter this impact, the Company proposes to begin depreciating the plant investments when they are placed in service, but rather than recognizing depreciation expense, the costs would be recorded in a regulatory asset. At the time of the Company's next rate case, any deferred amounts would be amortized over 25 years.

Similarly, the Company proposes to capitalize the post-in-service carrying costs, then the carrying costs on the eligible investments would be recorded to a regulatory asset. At the time of the Company's next rate case, the deferred amount would be amortized over 25 years.

LaGrand Dir., pp. 11-17 ; Reb., pp. 26-29; Sur., pp. 7-12.

c. **Revenue Stabilization Mechanism (RSM) / Decoupling:** Should the Commission approve a RSM for MAWC? If so, how should the RSM be structured in terms of revenue requirement, included customer classes, the calculation of refunds, the inclusion of production costs, or other factors?

MAWC Position:

Approve an RSM -

Yes. Section 386.266.4, RSMo authorizes a RSM ". . . to ensure revenues billed by such water corporation for regulated services equal the revenue requirement for regulated services as established in the water corporation's most recent general rate proceeding or complaint proceeding . . . due to any revenue variation resulting from increases or decreases in residential, commercial, public authority, and sale for resale usage." (emphasis added).

Although most of MAWC's costs are fixed, its rate structure is based, largely, on volumetric charges. Consequently, any factors that affect sales, either positively or negatively, will necessarily drive a wedge between Authorized Revenues in this case and the actual level experienced on a going forward basis. In fact, between 2012 and 2021, the actual return on equity has fallen far short of a reasonable return in every year, except 2012.

The Company's proposed RSM is designed to align the Company's revenues with the level the Commission uses to set rates in this case going forward. The mechanism effectively addresses the unpredictable changes in volume of water sold due to factors beyond the control of the Company. The RSM avoids windfalls or shortfalls by ensuring that the Company collects the amount of Authorized Revenues and that customers pay no more or less than the revenue level found appropriate to produce just and reasonable rates. If revenue is higher than expected, the net difference will be credited to customers. Conversely, if revenue is lower than expected, the RSM will make up the net difference to the Company.

Revenue variation associated with changes in weather and customer usage are of such a magnitude that they materially impact the utility and its ability to earn a fair return on equity. Further, these matters are beyond MAWC's control. The RSM provides the Company with a sufficient opportunity to earn such a return as it makes adjustments for these matters beyond MAWC's control, while preserving the Company's incentive to manage its expenses and investments.

Rea Dir., pp. 51-62; Sur., pp. 2-15.
LaGrand Dir., pp. 7-11.

RSM Structure -

The Commission should approve Authorized Revenues and production costs in this proceeding. Once approved, the RSM proposed by MAWC would then compare the Authorized Revenues to actual billed revenues for the residential, commercial, other public authorities (OPA) customer classes and Sale for Resale, and defer/accrue the difference, less the applicable change in production costs, on a monthly basis. Industrial customers would be excluded from the RSM. Production costs would include power, chemicals, purchased water, and water waste disposal (a percentage of usage for Industrial customers would be removed).

The annual amount of metered revenues and the annual amount of expenses for all production costs would be prorated to monthly amounts. The Company proposes that the proration be set using the Company's last two years of system delivery to obtain a reasonable monthly amount of Authorized Revenues and production costs. These monthly amounts would be reset in the next base rate case proceeding.

Production costs should be taken into account because they vary with sales volumes. Delivering more water costs more and delivering less water costs less. Netting production costs will ensure that both the Company and its customers are made whole; paying only those production costs associated with the actual amount of water delivered.

Watkins Dir., pp. 10-14; Sur., pp. 2-10.

d. **Production Cost Tracker (if not in RSM):** Should MAWC be allowed to implement a production cost tracker?

MAWC Position: If the Commission does not approve an RSM that includes a production cost tracker, it should separately approve a tracker mechanism for production costs. This tracker would allow any differences in production costs incurred and production costs in customer rates to be deferred to a regulatory asset or liability.

The relevant costs are related to things such as the costs of electricity at water treatment plants, the costs of chemicals to treat and clean the water before it is delivered to customers, sludge removal costs at a wastewater lagoon, and water purchased from a neighboring community to supplement our production capacity.

Similar to the Company's Pension & OPEB trackers that have been in place for nearly 15 years, the production cost tracker primarily consists of costs that are outside the Company's control. These are among the most critical costs incurred because they are essential for providing safe, clean drinking water to our customers and their families. This is not a discretionary expense the Company can choose to incur or not incur.

LaGrand Dir., pp. 17-19; Sur., pp. 23-25.

e. **Bad Debt Cost Tracker:** Should MAWC be allowed to implement a bad debt cost tracker?

MAWC Position: Yes. The Company is proposing to implement an Uncollectible Expense tracker to record the difference between the expense level established in base rates and the actual incurred uncollectible expense to a regulatory asset/liability account with any recorded balance to be recovered/refunded through an amortization during a subsequent rate case. Doing so will address fluctuations in bad debt expense and protect both MAWC customers and the Company from the immediate impact of this volatility.

Selinger Dir., pp. 25-27; Sur., pp. 5-8.
Mason Dir., pp. 11-14.

3. Affiliate Transactions:

a. **Affiliate Transactions Rules:** Should MAWC be required to file a Cost Allocation Manual with the Commission? Should the Commission open a new rulemaking docket in order to draft affiliate transactions rules for water and sewer?

MAWC Position:

Cost Allocation Manual – There is no need for additional requirements associated with a Cost Allocation Manual (CAM) for the Company. As part of the Stipulation and Agreement in Case No. WR-22003-0500, the Company agreed to, and does, provide a CAM to Staff and OPC by March 16th of each year. That CAM contains a set of criteria, guidelines and procedures for the Service Company cost allocations to MAWC and its affiliates. Ultimately, MAWC affiliate transactions are scrutinized in all of its rate cases, including this one.

LaGrand Reb., pp. 25-26.

New Rulemaking Docket - While the Company does not believe that water and sewer utilities should be subject to affiliate rules, the pending case related to affiliate transaction rules (Case No. AW-2018-0394) is the most appropriate venue to resolve any issue of applicability of the rules to water and sewer utilities.

LaGrand Reb., pp. 25-26 ; Sur., p. 26.

b. **Customer Privacy Preferences:** Should the Commission update its customer privacy rules to ensure that Missouri ratepayers have the ability to decide how their personal information is used? Should MAWC update its website to make it easier for customers to manage how MAWC and American Water use their personal information?

MAWC Position: MAWC does not believe that the Commission need to update its customer privacy rules regarding the use of personal information. MAWC customers, like all American Water utility subsidiary customers have web-based options today relative to how their data is consumed and/or shared, which includes the customer's right to access, delete, opt-out, limit use and correct inaccurate personal information.

Watkins Reb., pp. 8-9, 12.

c. **American Water Resources:** What adjustment, if any, should the Commission make associated with American Water Resources Company's (AWRC) logo used while AWRC was MAWC's affiliate? Should the Commission open an investigatory docket concerning the relationships and potential sharing of information between MAWC, AWRC, and American Water Works Company, Inc. affiliated entities (including the Service Company)?

MAWC Position: No adjustment should be made associated with American Water Resources Company's (AWRC) logo used while AWRC was MAWC's affiliate. First, there were no rules prohibiting use of logos for AWRC or American Water Works Company, Inc., nor could there be. Second, there is no evidence that the AWRC logo caused any confusion among MAWC's customers or others.

Further, there is no basis to open an investigation concerning the relationships between MAWC, AWRC, and American Water Works Company, Inc. and affiliated entities, given that as of December 2021, American Water sold its interest in AWRC and it is no longer an affiliate of American Water or MAWC.

Watkins Reb., pp. 6-12; Sur., pp. 10-11.

4. Rate Base:

a. **Cash Working Capital:** What are the appropriate expense lag days for support services, current federal income tax, and current state income tax?

MAWC Position: The expense lag days for Support Services should be a negative 2.20 day expense lag, as utilized by both the Company and Staff. The expense lag days for Current Federal

Income Tax and Current State Income Tax should be a 35.6 day expense lag as utilized by both the Company and Staff.

Walker, H., Dir., All; Sur., All.
Grisham Sur., pp. 2-3.

b. **Contributions in Aid of Construction (CIAC) / Amortization of CIAC:** What is the appropriate amount of CIAC and amortized CIAC to include in MAWC's cost of service?

MAWC Position: MAWC's calculation of CIAC is found on Schedule CAS-6 Customer Advances and Contribution in Aid of Construction. However, certain adjustments are proposed as a part of MAWC's discrete adjustments.

Grisham Dir., pp. 6-7; Reb., p. 4.

c. **Depreciation Reserve:** What is the appropriate amount of depreciation reserve to include in MAWC's cost of service?

MAWC Position: Schedule CAS-5 Accumulated Depreciation Reserve shows the reserve balances for MAWC. MAWC agrees with Staff's adjustment in the amount of $1,019. However, certain adjustments are proposed as a part of MAWC's discrete adjustments.

Grisham Dir., pp. 5-6; Reb., pp. 3-4.

d. **Other Rate Base Items:**

i. What is the appropriate amount of materials and supplies to include in MAWC's cost of service?

MAWC Position: Materials and supplies should be based on the ending test year balance – in this case as of December 31, 2002, because MAWC's monthly balance for Materials & Supplies has increased each month from November 2021 through June 2022. Staff's number for this item should be increased by approximately $1.8 million.

Grisham Dir., p. 8; Reb., p. 4.

ii. What is the appropriate amount of customer advances to include in MAWC's cost of service?

MAWC Position: This issue is combined with CIAC for the Company (Issue 4 b above). Schedule CAS-6 Customer Advances and Contribution in Aid of Construction ("CIAC") contains the Company's position prior to True-Up.

Grisham Dir., pp. 6-7; Reb., p. 4.

iii. What is the appropriate amount of prepayments to include in MAWC's cost of service?

MAWC Position: MAWC agrees with the Staff's use of a 13-monnth average for the prepayments balance.

Grisham Reb., p. 6.

e. **Pensions and Other Post-Employment Benefits (OPEBs) and Trackers:** What is the appropriate amount of pensions and OPEBs to include in MAWC's cost of service?

MAWC Position: The appropriate amount of pensions and OPEBs to include in MAWC's cost of service are reflected in the Surrebuttal Testimony of Company witness John Watkins. Further, the tracker related to these costs should be continued to protect customers and the Company from the wide variations that can exist in expected costs because of the dependence upon market conditions and the resulting volatility.

Watkins Dir., pp. 3-6; Reb., pp. 2-3 ; Sur., pp. 21-22 ; Sched. JMW-2 ST and JMW-3 ST.

5. **Property Tax Tracker (SB 745):** Should MAWC be allowed to recover property tax amounts it has deferred since August 28, 2022, pursuant to SB 745?

MAWC Position: Yes. Section 393.1275, RSMo, authorizes Missouri water and sewer corporations to defer to a regulatory asset or liability account any difference in state or local property tax expense incurred, with the property tax expense included within the revenue requirement used to set rates in that corporation's most recently completed general rate proceeding. This statutory section became effective on August 28, 2022. As of that date, MAWC begin deferring the difference between the property tax expense level included within the revenue requirement used to set rates in its last rate case, Case No. WR-2020-0344, and those amounts built into its WSIRA mechanism and its actual property tax incurred and proposes to amortize this difference over a five-year period beginning at the conclusion of this case.

Selinger Dir., pp. 27-28; Reb., p. 4; Sur., pp. 2-5.

6. **Lead Service Lines:**

   a. **Deferred Customer Lead Lines:** How should the unamortized balance be treated? Should MAWC provide information regarding its lead line replacement program in future WSIRA cases as proposed by OPC witness Marke?

MAWC Position: The Company is not proposing any change from the treatment afforded to the deferred costs related to the replacement of customer owned lead service lines in the Company's last two rate cases. This includes the application of the Company's long-term debt rate to the unamortized balance when determining the revenue requirement.

MAWC opposes OPC witness Marke's request for an order related to reporting on lead line matters within MAWC's future WSIRA cases. Dr. Marke has cited no problems with the current process or MAWC's plans related to lead service lines, only his curiosity. The subject information is available to Staff and OPC upon request. There is no reason to include this requirement in an order in this case.

LaGrand Sur., pp. 14- 15.
Grisham Dir., pp. 4-5.

   b. **Lead Service Line Funding:** Should the Commission order MAWC to pursue all federal funding opportunities related to lead line replacements? Should MAWC be required to disclose its actions and plans with the Commission and stakeholders in the AW-2023-0156 docket?

MAWC Position: A Commission order is not required related to pursuit of federal funding opportunities for lead lines or reporting of such. MAWC actively reviews opportunities for state and federal funding to assist with the cost of infrastructure replacement and has submitted multiple applications to obtain federal funding.

Lueders Reb., pp. 4-6.

7. **Income Taxes:**

    a. **Excess ADIT Stub Period (Amortization & Tracker):** Should the TCJA tracker balance be applied against the remaining stub period amortization to include as a credit on customer bills?

MAWC Position: In the Company's last rate case, the Commission-approved Stipulation and Settlement Agreement stated that Excess ADIT from the period beginning in January 2018 through May of 2021 (the "stub period) would be returned to customers over two and one-half years beginning with the effective date of new rates. The total stub period balance to be returned was $33,079,708, with an annual amortization to reduce customer rates of $13,231,883. As of the time that new rates take effect in this case, it is estimated there will be a remaining stub balance of $6,615,942, or approximately six months of amortization. The Company proposes to return this remaining balance through a bill credit for six months following the effective date of new rates in this case.

LaGrand Dir., pp. 29-31.

    b. **Income Taxes:** Should income taxes be included in MAWC's cost of service? If so, what is the appropriate methodology for determining how much should be included?

MAWC Position: Consistent with past practice, both the current and deferred portion of income tax expense should be reflected in MAWC's cost of service. The deferred portion should be included in deferred income taxes as an offset to rate base, again, consistent with past practice. This has the effect of "normalizing" timing differences created by the Internal Revenue Code.

Ciullo Sur., All.

c. **Accumulated Deferred Income Tax (ADIT):** Should ADIT be included in MAWC's cost of service? If so, what is the appropriate methodology for determining how much should be included?

MAWC Position: This issue is a companion with Issue 7.b. Consistent with past practice, both the current and deferred portion of income tax expense should be reflected in MAWC's cost of service. The deferred portion should be included in deferred income taxes as an offset to rate base, again, consistent with past practice. This has the effect of "normalizing" timing differences created by the Internal Revenue Code.

Cuillo Sur., All.

8. Labor & Related:

a. **Incentive Compensation:** Should incentive compensation related to MAWC's financial performance be included in MAWC's cost of service?

MAWC Position: Yes. Market-based total compensation, including an element related to earnings per share and other financial goals should be included in MAWC's cost of service.

MAWC offers compensation that has allowed it to attract and retain customer-committed, dedicated and highly qualified employees. The Company's overall compensation philosophy is to provide employees with a total compensation package that is market based and competitive with those of comparable organizations with jobs of similar responsibility. As part of its compensation philosophy, MAWC has chosen to place a portion of its compensation at risk, driving continued performance across the enterprise. Specifically, the Company targets its total direct compensation (inclusive of base and at risk compensation) for each role near the market median (50th percentile). By using a combination of fixed and base and at-risk compensation, MAWC ensures competitive market-based compensation for all employees, while continuing to motivate employees to achieve goals that will improve performance and efficiency for the benefit of customers.

Employee compensation is a cost of providing utility service, not unlike any other prudently incurred cost of service recoverable in rates. Employee compensation must therefore be assessed through the same lens as all other operating costs of the Company. The Company's total direct compensation expense is reasonable and prudently incurred and thus, should be recoverable like all other costs of service.

Kaiser Dir., pp. 13-20; Reb., pp. 2-9.
Mustich Dir., all.

b. **Payroll:** What is the appropriate amount of payroll expense to include in MAWC's cost of service?

MAWC Position: The Appropriate amount of payroll expense to include in MAWC's cost of service is $38,677,254.

Mason Dir., pp. 4-7; Reb. pp. 12-14.
Kaiser Dir., pp. 12-13.

c. **Payroll Taxes:** What is the appropriate amount of payroll taxes to include in MAWC's cost of service?

MAWC Position: Payroll tax expense is directly related to salaries and wages. Two types of taxes are required to be paid in accordance with the Federal Insurance Contributions Act – Old Age Survivors and Disability Insurance ("OASDI," or more commonly "FICA"), and Hospital Insurance (or more commonly "FICA Medicare"). Federal Unemployment Tax ("FUTA") and State Unemployment Tax ("SUTA") must also be paid. Pro forma payroll taxes were calculated on a position-by-position basis, using current 2022 tax rates and pro forma wages for the true-up period ending December 31, 2022, and the discrete adjustment applied to the period ending May 31, 2023. The tax rates include 6.2% FICA on up to $160,200 of wages, $1.45% FICA Medicare on the first $200,000 of wages plus an added .9% on wages in excess of $200,000, and 0.6% FUTA on the first $7,000 in wages. The summary of this adjustment can be found on Schedule CAS-13.

Mason Dir., pp. 7.

d. **Employee Benefits (Other than Pensions and OBEBs):** What is the appropriate amount of employee benefits to include in MAWC's cost of service?

MAWC Position: Employee Benefits (Other than Pensions and OPEBs) includes MAWC's 401k expenses, the Defined Contribution Plan (DCP), the Volunteer Employee Benefits Association (VEBA), and the Employee Stock Purchase Plan (ESPP).

<u>401k</u> - The Company matches a portion of employee 401k contributions. The 401K benefit expense should be calculated multiplying the employee's "base pay" by the Company's applicable matching percentage factor. An expense in the amount of $808,219 should be included for 401k.

<u>DCP</u> – DCP is a retirement savings program for employees not eligible for the defined benefit pension program. Under the DCP, Missouri-American contributes an amount equal to 5.25% of an employee's base pay into a retirement account. An expense in the amount of $1,115,804 should be included for DCP.

<u>VEBA</u> – Collective Bargaining Unit employees, who are not eligible for OPEB, are entitled to Company-provided retiree medical benefits. MAWC has set up a trust (referred to as the Voluntary Employee Benefits Association, or VEBA) to fund this benefit in the amount of $600 per eligible employee. An expense in the amount of $140,329 should be included for VEBA.

<u>ESPP</u> - MAWC's cost of service should include $127,035 for the cost of the 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 Company's cost of service.

Other Benefits – Miscellaneous benefits, which includes items such as training and tuition aid, should be included in the Company's cost of service. An expense in the amount of $827,269 should be included for Other Benefits.

Mason Dir., pp. 9-11; Reb., pp. 12-16.

9. Production Costs:

a. **Chemicals:** What is the appropriate amount of chemical expense to include in MAWC's cost of service?

MAWC Position: Chemical prices have been rapidly increasing and are expected to increase further. Ultimately, Chemical expense should take into account the most recent pricing available, Miscellaneous Chemicals, known process changes and acquisitions that have closed. Ultimately, Chemical expense will be adjusted based on the appropriate system delivery/usage levels as determined by the Commission.

Schwarzell Dir., pp. 5-7; Reb., pp. 3-5, Sched. MLS-1 RT.
O'Drain Dir., All.

b. **Fuel and Power Expense:** What is the appropriate amount of fuel and power expense to include in MAWC's cost of service?

MAWC Position: Fuel and Power expense should take into account the most recent pricing information available (such as the Commission's Amended Report and Order issued on December 8, 2022 (effective December 18, 2022), in Cases Nos. ER-2022-0129 & ER-2022-0130), known process changes and acquisitions that have closed. Ultimately, Fuel and Power expense will be adjusted based on the appropriate system delivery/usage levels as determined by the Commission.

Schwarzell Dir., pp.4-5; Reb., pp. 5-6.

c. **Purchased Water:** What is the appropriate amount of purchased water expense to include in MAWC's cost of service?

MAWC Position: Purchased Water expense includes costs for purchasing water from other entities. These entities include KC Water Services, City of Excelsior Springs, City of St. Louis, Ozark Water System, Callaway County District #1, City of California, PWSD #1 of Clinton County, and City of Orrick. Purchased Water expense should take into account the most recent pricing available and acquisitions that have closed. Ultimately, it should be adjusted based on the appropriate system delivery/usage levels as determined by the Commission.

Schwarzell Dir., p. 4; Reb., pp. 6-7.

d. **Waste Disposal:** What is the appropriate amount of waste disposal expense to include in MAWC's cost of service?

MAWC Position: MAWC incurs waste disposal costs as a result of the need to properly dispose of sludge and other by-products resulting from water and wastewater treatment. MAWC treats waste disposal in some areas, while in others, specifically related to wastewater, MAWC uses a third party for treatment. Sludge removal and lagoon cleaning for MAWC occurs on a cycle ranging from monthly to several years. MAWC agrees with Staff's level of waste disposal expense.

Schwarzell Dir., p. 7; Reb., p. 7.

e. **Water Loss Adjustment:** What water loss percentage should be used to calculate chemical, fuel, and power expense?

MAWC Position: The water loss percentage should be determined by using a five-year average water loss percentage (as done by both MAWC and Staff). However, the appropriate system delivery/usage levels as determined by the Commission should be used to determine normalized system delivery.

Schwarzell Reb., pp. 2-3.

10. Maintenance Expenses:

a. **Hydrant Painting:** What is the appropriate amount of hydrant painting to include in MAWC's cost of service?

MAWC Position: MAWC does not specifically separate out hydrant painting from other maintenance. However, when broken out separately, the appropriate amount for hydrant painting for the period ending December 31, 2022, is $107,039.

b. **Main Break Expense:** What is the appropriate amount of main break expense to include in MAWC's cost of service?

MAWC Position: Main break expense should be based on a three year average of the actual number of main breaks. For the three-year average ending December 2022, this results in a slightly lower Main Break expense of $3,522,435 vs. Staff's expense of $3,575,046.

Schwarzell Dir., p. 9; Reb., pp. 10-11.

c. **Maintenance Supplies and Services Expense:** What is the appropriate amount of maintenance supplies and services expense, other than main break, hydrant painting, and tank painting expense, to include in MAWC's cost of service?

MAWC Position: Maintenance supplies and services expense, excluding hydrant painting, main break expense and engineered coatings should be included in the Company's cost of service. For the three year average ending December 2022, the appropriate level of expense is $3,819,305. This amount includes $107,039 for hydrant maintenance as discussed above.

Schwarzell Reb., p. 11.

d. **Tank Painting (Engineered Coatings):** Should tank painting costs be treated as an expense or be capitalized? If expensed, what is the appropriate amount of tank painting expense to include in MAWC's cost of service? If capitalized, what is the appropriate amount of tank painting expense to remove from MAWC's cost of service?

MAWC Position:

<u>Accounting Treatment</u> –

The Company should be permitted to capitalize investments in Engineered Coatings in USOA account 342, and to depreciate those assets over 20 years. The rehabilitation of water storage tanks is essential to extending the life of a critical water system asset, the storage tanks. Without this work, the structural and environmental integrity of tanks would degrade quickly after the initial coating systems begin to fail and the service life of the tanks would be much shorter. Similar to other capital work on long-lived assets such as the rehabilitation of a high-service pump, the tank coating has a significant service life of 15 to 20 years of its own and it maintains the continued functioning of the original asset.

If the capitalization of these costs is not approved, the Commission should reinstate the tank painting tracker that existed prior to Case No. WR-2015-0301 and allow the Company to track the actual costs against a level of expense included in rates.

<u>Cost of Service</u> –

If the costs associated with engineered coatings are not capitalized, $2,065,923 should be included as an expense in MAWC's cost of service. These structures are continuing to age and many of these tanks are nearing the life expectancy of their existing coating systems. Many others tied to recent acquisitions have not been properly maintained for some time and will require new coating systems to extend the life of the structure.

Lueders (adopting Losli Dir., pp. 26-34).
Schwarzell Reb., pp. 9-10.
LaGrand Sur., pp. 12-13.

11. Miscellaneous Expenses:

a. **Advertising Expense:** What is the appropriate amount of advertising expense to include in MAWC's cost of service?

MAWC Position: This issue refers to what MAWC calls its customer education, community relations, and community partnership expenses. The appropriate amount of these expenses to include in MAWC's cost of service is $75,432. Using the figure recommended by MAWC would encourage more corporate community engagement.

Mason Reb., pp. 22-23.

b. **Amortization of Regulatory Assets:**

i. **Emerald Pointe Pipeline:** What is the appropriate accounting treatment of the section of the Emerald Pointe pipeline owned by the City of Hollister?

MAWC Position: The Commission should include $261,889 in deferral costs for the City of Hollister pipeline, which was first placed into service in 2013. In order to eliminate a failing sewer treatment plant, Emerald Pointe built a pipeline to a treatment plant owned by the City of Hollister (See Commission Case No. SA-2012-0362). As part of its 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.

Prior to MAWC's acquisition of Emerald Pointe, the unamortized cost of the pipeline was given rate base treatment by the Commission, which MAWC continues to rely upon in accounting for the pipeline's costs.

Grisham Reb., pp. 4-5.

ii. **City of Purcell:** Should MAWC be allowed to recover the costs it incurred to operate the City of Purcell's systems before MAWC acquired them? If so, what is the appropriate accounting treatment of MAWC's costs to operate the City of Purcell's systems before MAWC acquired them?

MAWC Position: At the request of the Staff, Missouri Department of Natural Resources and local elected officials, MAWC stepped in to operate the City of Purcell systems after they were left with no operator to help ensure the Purcell residents had access to safe and reliable water and wastewater services. MAWC should be allowed to recover the $237,529 related to the operations of the Purcell system prior to MAWC's ownership. That amount should be amortized over 5 years, which is a monthly amortization expense of $3,959.

LaGrand Surr., pp. 16-17.
Grisham Dir., pp. 10-11.

c. **Bad Debt Expense:** What is the appropriate amount of bad debt expense to include in MAWC's cost of service?

MAWC Position: The appropriate amount of bad debt expense to include in MAWC's cost of service should be derived by utilizing a 3-year average of expense for the years 2018, 2019, and 2021 and then applying the 3-year average to present rate and proposed rate revenues to develop the on-going level of expense that will be applicable to the filed revenue requirement.

Mason Dir., pp. 11-14; Sur., pp. 2-5.

d. **Building Maintenance and Services:** What is the appropriate amount of building maintenance to include in MAWC's cost of service?

MAWC Position: The operating expense associated with building maintenance and services are those expenses associated with groundskeeping, security, trash, janitorial expenses, building electricity, heating, and other related costs. With the long term upward increasing trend of actual expense and the current inflationary environment, the Commission should include the latest twelve-month actual expense of $1,863,860, which is the actual expense for the twelve-months ended December 31, 2022.

Schwarzell Dir., pp. 8-9; Reb., pp. 8-9.

e. **Contract Services (Outside Services – Accounting, Legal, Missouri One Call, etc.):** What is the appropriate amount of outside services to include in MAWC's cost of service?

MAWC Position: The appropriate amount of contract services expense to include in MAWC's cost of service is $4,183,726.

Mason Dir., p.16, CAS-13.

f. **Credit Card Fees:** What is the appropriate amount of credit card and e-check fees to include in MAWC's cost of service?

MAWC Position: The appropriate amount of credit card and e-check fees to include in MAWC's cost of service is $1,133,994, including expected costs for acquisitions not reflected in Staff's credit card and e-check fee amount. Additionally, MAWC's cost of service should include $495,906 for other bank charges related to payment processing for a total of $1,629,000.

Mason Reb., p. 18.

g. **Dues and Donations:** What is the appropriate amount of dues and donations expense to include in MAWC's cost of service?

MAWC Position: The appropriate amount of dues and donations expense to include in MAWC's cost of service is $99,460 for donations and $390,854 for membership dues. The Commission should include these costs in the Company's cost of service because MAWC's customers receive benefits associated with its participation in these organizations.

Mason Dir., pp. 16-17; Reb., pp. 19-20.

h. **Employee Expenses:** What is the appropriate amount of employee expenses to include in MAWC's cost of service?

MAWC Position: The operating expense related to employee expense includes those expenses associated with employee travel and relocation expense. A three average of such expenses should be used. The appropriate amount of employee expense to include in MAWC's cost of service is $593,590.

Mason Dir., pp. 17-18; Reb., pp. 7-12.

i. **Insurance (Other than Group):** What is the appropriate amount of insurance expense to include in MAWC's cost of service?

MAWC Position: The appropriate amount of Insurance (Other than Group) expense to include in MAWC's cost of service is $7,644,437, which includes the acquisitions of Monsees Lake, Purcell, and Pom-Osa Heights.

Watkins Dir., p. 9; Reb., p. 4; Sched. JMW-1 RT.

j. **Leases (Rents and Transportation):** Should non-renewed leases be removed from MAWC's cost of service? What is the appropriate amount of transportation lease expense to include in MAWC's cost of service?

MAWC Position:

Rent Expense – MAWC incurs rent expense for copy machines, other miscellaneous items, the El Chaparrel Estates Subdivision lagoon, and two office locations: one at 727 Craig Road, St. Louis, Missouri, and one at 1050 Fox Chase Industrial Court in Arnold, Missouri. MAWC agrees with Staff's level of expense and that non-renewed leases should be removed.

Schwarzell Dir., p. 8; Reb., pp. 11-12.

Transportation Expense – Transportation expense, which includes both lease costs as well as fuel costs, should be included in MAWC's cost of service. The appropriate amount to include is $4,336,714.

Mason Dir., pp. 15-16.

k. **Lobbying Expenses:** Has MAWC removed all lobbying expenses from its cost of service?

MAWC Position: MAWC believes that it has removed all booked lobbying expense from its cost of service.

Mason Reb., p. 19.

l. **Office Supply and Services Expense:** What is the appropriate amount of office supply and services expenses to include in MAWC's cost of service?

MAWC Position: The operating expense for office supply and services are those expenses related to software licenses, bank fees, and various miscellaneous office supplies. The appropriate amount of office supply and services expense to include in MAWC's cost of service is $802,280.

Mason Dir., p. 17; Reb., pp. 3-5.

m. **Penalties Expense:** What is the appropriate amount of penalties expense to include in MAWC's cost of service?

MAWC Position: The Company removed all penalty expenses prior to its rate request.

Mason Reb., pp. 20-21.

n. **Postage Expense:** What is the appropriate amount of postage expense to include in MAWC's cost of service?

MAWC Position: Customer Accounting expenses relating to collection agencies, forms, surveys, language services, and bill postage are being billed through the Service Company charges. Customer Accounting costs related to payment processing are discussed with Credit Card Fees.

Mason Dir., pp. 14-15.

o. **Promotional Items:** What is the appropriate amount of promotional items expense to include in MAWC's cost of service?

MAWC Position: The Commission should not exclude the amount proposed by Staff because the Company appropriately designated them as miscellaneous expense, community relations expense or office supplies because the items are used to educate customers on specific topics such as water safety and customer service contact information.

Mason Dir., pp. 5-6.

p. **Property Taxes:** What is the appropriate amount of property tax to include in MAWC's cost of service?

MAWC Position: The appropriate amount of property tax expense to include is an annual level of property tax of $39,433,322 based on property taxes paid through the end of 2022 along with a discrete adjustment for property taxes related to select investments through May 31, 2023.

Selinger Reb., pp. 2-4.
LaGrand Reb., pp. 19-20.

q. **PSC Assessment:** What is the appropriate amount of PSC Assessment to include in MAWC's cost of service?

MAWC Position: Due to this volatility of the annual PSC assessment, the Company proposes a 3-year average of PSC assessments to arrive at a reasonable on-going level of annual expense of $2,462,184.

Mason Reb., pp. 6-7.

r. **Rate Case Expense:** Should rate case expense be shared between ratepayers and shareholders and, if so, how? What is the appropriate accounting treatment of rate case expense? Should MAWC be allowed to recover the unamortized rate case expense attributable to Case Number WR-2020-0344? Should MAWC be allowed to recover the legal expenses attributable to Barnes and Thornburg LLP?

MAWC Position:

Shared Expenses – Rate case expense should not be "shared." The Company is cautious and careful when submitting rate case expense, and no party has questioned the reasonableness of the Company's costs to litigate this rate case (with the exception of the Barnes and Thornburg issue referenced below).

Additionally, the cost of the depreciation study performed for Case No. WR-2020-0344 should not be "shared." Similarly, full recovery should be allowed for costs related to required customer notices and costs related to Staff viewing workpapers of the Company's external auditor.

Accounting Treatment – Rate case expenses should be amortized over a 36-month period. This approach calls for the costs to be accumulated in a regulatory asset as they are incurred, and then the prudent costs amortized over a period that recognizes a portion of those costs each year. Using normalization requires the Company to recognize as expense the entirety of rate case expense as it is incurred, which will create a mismatch of when the cost is incurred and when it is included in rates.

Unamortized Rate Case Expense – MAWC should be allowed to amortize the remaining costs associated with Commission Case No. WR-2020-0344 over three years. This results in an annual amount of $99,884. $23,497 of that annual cost is related to the depreciation study referenced above, and $30,399 of that amount is for the required customer notice communications. The remaining $45,988 are costs related to other aspects of preparing and completing a rate case.

Barnes and Thornburg – Attorneys from Barnes and Thornburg have helped with the preparation of this case and will assist in the hearing associated with this case, and the required briefing of this case. The costs associated with their participation are both reasonable and prudent.

LaGrand Dir., pp. 26-29; Reb., pp. 12-19; Sur., pp. 17-18.

s. **Support Services (Service Company):** What is the appropriate amount of Service Company costs to include in MAWC's cost of service?

MAWC Position: The services provided by the Service Company include customer service, water quality testing, innovation and environmental stewardship, human resources, communications, information technology, finance, accounting, payroll, tax, legal, engineering, accounts payable, supply chain, and risk management services. The Service Company provides MAWC with access to highly trained professionals who possess expertise in various specialized areas, whose background, experience and training are focused on water utility operations. The Company benefits from these services and the expertise of the Service Company's personnel at a reasonable cost. The appropriate amount of Service Company costs to include in MAWC's cost of service is $40,373,440.

Watkins Dir., pp. 6-8; Reb., pp. 4-6.
Baryenbruch Dir., All; Reb., All.

t. **Telecommunications Expense:** What is the appropriate amount of telecommunications expense to include in MAWC's cost of service?

MAWC Position: Telecommunications expense consists of costs related to telephone, telemetering, cellphone, and data lines that the Company uses in its day-to-day business. MAWC agrees that the test year best represents the ongoing level of telecommunications expense. However, an additional $16,464 should be added to the test year expenses calculated by Staff based on the annualization of the Hallsville telemetering expense starting in April of 2022.

Mason Reb., pp. 18-19.

12. Billing Determinants:

a. **Declining Usage:** What is the appropriate methodology for normalizing residential customer usage?

MAWC Position: The Commission should find that the appropriate methodology for normalizing residential customer usage is that proposed by the Company. This method is based on an analysis of ten years of monthly data with 120 historical data points for each of the ten years analyzed to determine the level of declining use. This approach recognizes positive and negative trends in usage for the purpose of developing an accurate set of billing determinants for rate making that reflects the current level of normalized usage. The Company recommends that the Commission adopt the Company's approach to calculating residential billing determinants, which includes adjustments for customer growth and adjustments for declining consumption, both of which have been demonstrated through the Company's analysis of usage and customer counts.

Rea Dir., pp. 36-37; Reb., pp. 2-6; Sur., pp. 17-19.

b. **Normalized Residential Customer Usage:** What is the appropriate methodology to calculate normalized residential customer usage?

MAWC Position: The appropriate methodology to calculate the normalized residential customer usage should be established using the Company's approach of using a statistical linear regression analysis to model monthly residential usage over an historical 10-year period for both St. Louis County and non-St. Louis County customers and uses that statistical analysis to normalize the effects of weather usage anomalies to project residential use for the twelve month period ended June 30, 2022 to project the usage on a forward basis on the identified trends in usage for the 12-month periods ended December 31, 2022 and May 31, 2023.

Rea Dir., pp. 36-37; Reb., pp. 2-6; Sur., pp. 17-19.

c. **Revenues:** What is the appropriate number of residential meters to use for calculating the minimum charge to include in revenues? What is the appropriate amount of Other Operating, Miscellaneous, and Unbilled revenues?

MAWC Position: The appropriate number of residential meters to use for calculating the minimum charge to include in revenues is 319,074 for St. Louis County customers and 122,473 for non-St. Louis County customers and acquisition customers. The appropriate amount of Other Operating, Miscellaneous, and Unbilled revenues are $5,246,033, $319,608, and $0, respectively.

Selinger, CCOS Schedule WES – 1R, CAS 11 & 12, p. 1 Total Water tab, p. 2 St. Louis County tab, p. 2-3 All Other MO tab, p. 2-6 Acq W tab … all CAS references are summations of relevant meter counts annualized (divided by 12).

d. **Revenues – Customer Commodity:** What are the appropriate usage revenues for water rates A, J, resale, and private fire? What are the appropriate usage revenues for sewer rates for residential, commercial, industrial, and OPA customers?

MAWC Position: The appropriate usage revenues for water rates are as follows:

Rate A:	$249,288,389
Rate J:	$21,285,991
Resale	$11,647,207
Private Fire	$484,431

Selinger Reb., pp. 2-3, WES, CAS 11 & 12.

The appropriate usage revenues for sewer rates are as follows:

Residential	$14,397,835
Commercial:	$3,941,664
Industrial:	$17,232
OPA customers:	$582,325

Rea Dir., CAS 11 & 12, Total Wastewater tab p. 1.
Selinger Reb., pp. 2-3.

13. Class Cost of Service:

a. **Cost of Service Studies:** What are the appropriate allocation factors to be used to determine the revenue requirement allocation? Should the Commission utilize the Class Cost of Service Studies filed in this case to determine the appropriate allocation of the revenue requirement to the various customer classes? If so, what should be the allocation of the revenue requirement to each class? How should the revenues associated with special contracts be treated in developing the class cost of service?

MAWC Position: The Commission may consider the results of the class cost of service studies conducted by MAWC as a way to inform its revenue requirement allocation, however, the revenue requirement should be allocated among rate classes in accordance with the Company's rate design included in Schedule CBR-1, attached to the Direct Testimony of MAWC witness Charles Rea. The Company's allocation factors used within its class cost of service study are reasonable and follow widely used and accepted allocation methodologies that are consistent with the allocators used in MAWC's most recent general rate case, specifically the base/extra capacity allocation methodology described by the AWWA.

Selinger Dir., pp. 4-16.

The revenues and expenses associated with special contract customers should be included within the class cost of service study.

Selinger Dir., pp. 16-20.

14. Rate Design:

a. **Meter Charge Consolidation**: What meter charges should be used?

MAWC Position: The Commission should increase the monthly meter charges for the 5/8 inch to $12.00 per month with proportionate increases to other meter sizes. The Company's proposal for setting the 5/8" meter charge at $12.00 represents a 33% increase which is still less than the monthly meter charges supported in the Company's Class Cost of Service. Additionally, the Commission should consolidate the monthly fixed charge for a 5/8 inch and ¾ inch meter to a single rate because both of these meters are used for typical residential customer connections and have similar physical characteristics and it simplifies the current rate structure.

Rea Dir., p. 11, Schedule CBR-1.
Kaiser Dir., pp. 23-24.

b. **Single Tariff Pricing:** Should the Commission consolidate Rate Class A across St. Louis County and non-St. Louis County customers?

MAWC Position: The Commission should consolidate and equalize volumetric rates for all Rate A to move to one single tariff rate because the current volumetric rates for the St. Louis County and non-St. Louis County are nearly identical. The Commission should move the volumetric rates for Rate J for St. Louis County and non-St. Louis County closer together to continue the move to single tariff pricing for these customers.

Rea Dir., p. 9.

15. **Allowance for Funds Used During Construction:** What is the appropriate capitalization rate to apply to construction work in progress?

MAWC Position: Allowance for Funds Used During Construction (AFUDC) should be calculated as approved by the Commission in MAWC's last base rate case, namely, the short-term borrowing rate should be applied to all construction work in progress, only to the extent that the actual balance of Construction Work in Progress (CWIP) does not exceed the actual short-term debt balance. Any amount in excess of the actual short-term debt balance should be subject to the long-term borrowing rate.

Swiz Sur., pp. 11-12.

16. **Corporate Allocations – Tariff Groups:** What is the appropriate allocation of corporate costs to the tariff districts?

MAWC Position: The corporate costs are costs that benefit the entire state and are not specifically attributable to a specific operation or location. For example, labor costs for MAWC employees who support the entire state, or general liability insurance. These costs should be allocated to the four operating districts - St. Louis County Water, All Other Water, Arnold Sewer, and All Other WW –

based on the number of service orders. This is a simple approach that mitigates the impact on smaller districts.

LaGrand Reb., pp. 31-34.

17. **Customer Service:** Should MAWC conduct an independent audit of its call center apparatus to assess its customer service performance?

MAWC Position: A comprehensive operation audit is neither necessary nor likely to yield additional information beyond that which the Company is already aware. The Company is aware that the current driver of longer than normal ASA is due to agent resources. The Company is aware of the need to hire and retain competent CCAs and has already focused efforts in that area.

Walker, T. Reb., All.

18. **Extension of Company Mains Rule:** Should the Commission allow MAWC to change its tariff Rule 23 Extension of Company Mains? If so, should the 120-day time frame be removed? Should the Commission adopt MAWC's proposed 65:35 funding ratio? Should the Commission adopt Staff's proposed 75:25 funding ratio?

MAWC Position: The Commission should allow MAWC to change its tariff Rule 23 Extension of Company Mains. MAWC is currently refunding only a very small percentage of the potentially eligible cost of infrastructure to developers. This is due in large part to the 120-day connection requirement in the rule and the inability of the developers to make a substantial number of connections in this short period. MAWC's review indicates that a more appropriate share of cost for MAWC would on average be approximately 35% of the total cost of infrastructure. This percentage more closely represents the number of new connections expected in the developments than the current process.

Having said this, MAWC believes that the Staff proposal of a Company refund of 25% for all districts in Missouri and removal of the 120-day time frame will still simplify the extension rules and provide a more equitable process for the communities MAWC serves and those trying to invest.

Kaiser Dir., pp. 21-23; Sur., pp. 2-7.

19. **Late Fees:** Should MAWC reduce its late fees from 1.5% per month to .25% per month? Should MAWC make information regarding late fees more easily accessible on its website?

MAWC Position: There is no reason to change the late fee that was agreed to by all parties in Commission Case. No. WR-2017-0285 and has been in place since 2018. However, if the Commission decides to reduce or eliminate late fees, it should be noted that the Company has included $1,157,625 for late fees in this case. That amount, or an appropriate percentage, would need to be added to MAWC's cost of service if OPC's recommendation were approved.

As to the website, MAWC does not believe it is difficult to find the late fee information and, thus, no Commission order is needed. However, the Company is happy to work with OPC and Staff to make sure customers can find the information they need.

LaGrand Reb., pp. 22-24.

20. **Customer Programs:** Should programs proposed by OPC (Critical Needs Program and Ameren Missouri's Rehousing Pilot Program) be adopted for MAWC and, if so, how should they be funded?

MAWC Position: MAWC has discussed the Critical Needs program with OPC and has participated as an observer in the initial meetings. MAWC agrees to join the other Missouri utilities participating in that program.

Prior to seeing OPC's testimony, MAWC had not discussed the Rehousing Pilot Program, which is an Ameren program targeting transitional housing customers, with any other entity. MAWC has since engaged with other participating utilities to learn more about the Rehousing Pilot Program in order to determine what level of participation may be appropriate.

The Company disagrees with OPC's recommended funding level. MAWC is significantly smaller than the regulated energy utilities, and any annual contribution commitment from MAWC should reflect that disparity in size and revenues.

LaGrand Reb., pp. 29-31.

21. **Technology Investments:** Is MAWC paying an appropriate amount of capital expenditures and operations and maintenance expense to account for Enterprise Solutions investments? Should an amount be removed from rate base and the revenue requirement calculation in this case as a result of this issue?

MAWC Position: The Company engages in a robust practice to determine the appropriate level of investment in these types of assets, ultimately inuring to the benefit of MAWC's customers. Centrally managing Enterprise Solutions projects helps to ensure that projects are delivered timely, that resources are available to address the needs of MAWC, and to ensure that the technologies implemented operate effectively. MAWC is properly accounting for the capital software projects in accordance with Generally Accepted Accounting Principles. The subject Enterprise Solutions investments were prudent and reasonable and continue to assist in the provision of safe and reliable utility service to MAWC's customers.

Santillo Sur., All.
Linam Reb., pp. 4-5.

22. **Utility Excavation Coordination:** Should MAWC be ordered to meet with Staff and OPC to discuss coordinating main replacement with municipalities and other public utilities and to report its efforts to pursue cost savings? Should the Commission open a working docket to explore cost savings practices?

MAWC Position: The Commission need not order MAWC to meet with Staff and OPC, nor open a docket for this subject. MAWC already coordinates Company projects with various municipal and state authorities. There is no indication that creating an additional report on these activities, attempting to extrapolate savings estimates, or benchmarking would provide any additional value or offer tangible benefits to customers.

Kaiser Reb., pp. 9-10; Sur., pp. 7-8

23. **Water Sewer Infrastructure Rate Adjustment (WSIRA):** Should the rate of return the Commission establishes for the WSIRA include income tax?

MAWC Position: Section 393.1500, et seq., govern WSIRA matters. Section 393.1503, RSMo, calls for the inclusion of ". . . state, federal, and local income or excise taxes applicable to such revenues" (b), as well as "accumulated deferred income taxes . . . associated with eligible infrastructure system projects . . ." (a). These two items go hand in hand, as one increases revenue requirement as the other decreases revenue requirement. Ultimately, this is an issue for a WSIRA case, and not a general rate case. However, the Commission should not disrupt the lionage of these items, as recognized by the statute.

LaGrand Sur., pp. 18-19.

WHEREFORE, MAWC respectfully requests that the Commission consider this *Statement* *of Positions*.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail, on February 21, 2023, counsel for all parties.

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