BEFORE THE PUBLIC SERVICE COMMISSION
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-2020-0344**

STAFF'S STATEMENT OF POSITION

COMES NOW the Staff of the Missouri Public Service Commission (Staff), by and through counsel, and provides below its *Statement of Positions*.

Staff Positions

Monday, February 22

Test Year – What is the appropriate test year (historic or future test year), update, true-up period and discrete adjustments, if any, that the Commission should employ for purposes of determining MAWC's cost of service in this case?

Staff Position:

The appropriate test year is the historic test year of 12 months ending December 31, 2019, updated through June 30, 2020, with a true-up ending December 31, 2020, without adjustments past this date. (Staff's Cost of Service Report, p. 4-11, Bolin Rebuttal, p. 2-20 and Bolin Surrebuttal, p 2-4)

COVID-19 Accounting Authority Order –

a. Recovery – How much, if any, of MAWC's COVID-19 AAO should the Commission approve for recovery in MAWC's rates?

Staff Position:

The Commission should approve recovery of MAWC's COVID-19 AAO in the total amount of $2,045,220 for the period of March 1, 2020, through September 30, 2020, through an amortization. This total amount will be updated through December 31, 2020, as part of the true up audit. (Bolin Rebuttal, p 22-24)

b. Interest Expense – Should interest expense be recoverable in rates as part of the COVID-19 AAO agreed to in Case No. WU-2020-0417?

Staff Position:

Yes, the interest expense should be included in the AAO and excluded from any calculation of AFUDC to prevent double recovery**.** (Bolin, Surrebuttal, p 6-7)

c. Amortization – Over what period should the COVID-19 AAO be amortized?

Staff Position:

The COVID-19 AAO should be amortized over a 5 year period**.** (Bolin Rebuttal, p 23)

Tuesday, February 23

Property Tax –

a. Property Tax Expense - What is the appropriate level of property tax to be included in rates?

Staff Position:

The appropriate amount of property tax expense is $25,421,771. Staff determined its property tax adjustment by analyzing the 2019 property tax assessments and supporting documentation provided by the Company to determine the appropriate level of property tax expense to be included in the cost of service. (Staff's Cost of Service Report, p. 72-73). As part of its true-up audit, Staff will review the 2020 property tax assessments and any known material changes in how the taxing authorities assess MAWC's property that will become effective January 1, 2021, to consider whether the financial impact of those changes should be reflected in the true-up audit results as well.

b. Property Tax Tracker - Should the Commission implement a property tax tracker?

Staff Position:

No. In general, Staff views taxing authorities' changing the assessment methodologies of utility assets as part of these bodies' ordinary discretion, and should not be considered to be significant fluctuations. Staff's position is consistent with the Commission's Report and Order in Case No. WU-2017-0351. (McMellen Rebuttal, p. 8: 5-10).

Income Tax Gross-Up Factor – Should the income tax gross-up factor include consideration of uncollectibles and PSC assessment?

Staff Position:

Staff does not have a position on this issue.

Credit Card Fee Expense – Should the Commission include credit card fees in the calculation of cost of service?

Staff Position:

Yes. The Commission has allowed other utilities operating in the State of Missouri to include credit card fees in the revenue requirement. **(**Staff's Cost of Service Report pages 71 – 72)

Dues and Donations – What is the appropriate amount of dues and donations expense to be included in the cost of service calculation?

Staff Position:

The appropriate amount of dues and donations is $360,292.69. Staff reviewed the listings of various membership dues and charitable donations paid by MAWC during the test year ending December 31, 2019. Staff disallowed any dues and donations that did not provide a direct benefit to ratepayers, and which are not necessary to provide safe and reliable service to its customers. (Staff's Cost of Service Report, p. 66:1-32 and Barron Surrebuttal, p. 4-7).

PSC Assessment – What is the proper methodology and amount that should be included for the Missouri Public Service Commission assessment?

Staff Position:

Staff annualized the PSC assessment expense to reflect the most current annual assessment beginning July, 1, 2020. The appropriate amount of PSC assessment expense is $2,129,742. (Staff's Cost of Service Report, p. 59:29-35).

Wednesday, February 24

AFUDC –

a. AFUDC Calculation – What is the proper calculation of the Allowance for Funds Used During Construction (AFUDC) rate?

Staff Position:

The proper calculation for large water utilities such as MAWC should be identical to the AFUDC calculation contained in the Uniform System of Account for Electric Utilities Plant Instruction 17**.** (Bolin Rebuttal, p 25-26**)**

b. Rate Base Adjustment – Should rate base be adjusted to reflect a corrected AFUDC rate?

Staff Position:

Rate Base should be adjusted for AFUDC recorded in MAWC's plant accounts for the test year, update period, and true-up period**. (**Bolin Rebuttal, p 24-26)

c. Adjustment to Capital Structure – If short-term debt is not applied to Construction Work In-Progress (CWIP) first, then should short-term debt be included in MAWC's capital structure?

Staff Position:

Yes. If short-term debt is not applied to CWIP first, MAWC's capital structure should be modified to include the applicable short-term debt balance and rate in order to calculate MAWC's revenue requirement in this case. (Won Corrected Rebuttal, p. 23)

Amortizations –

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

Staff Position:

The AFUDC regulatory amortization should not be included in this case. To Staff's knowledge, no other utility has proposed to Staff that these type of regulatory assets be included, nor has the Commission approved this treatment. MAWC has not shown why including these regulatory assets is appropriate. (McMellen Surrebuttal, p. 9: 20-22).

Rate Base Issues

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

Staff Position:

No. Since MAWC does not own or maintain these assets, it is inappropriate to include the regulatory deferral (unamortized balance) for these costs in rate base. (McMellen Surrebuttal, p. 3: 10-14).

b. Cost of Acquisitions – Should the unamortized amounts of the Hickory Hills and Woodland Manor acquisitions be included in rate base?

Staff Position:

No. The unamortized balances for Hickory Hills and Woodland Manor acquisitions do not meet Staff's requirements for inclusion in rate base as it is not capital in nature, not associated with costs that are amortized over a long period of time, and is not significant to MAWC. (McMellen Surrebuttal, p. 4: 17-19 and p. 5: 3-4).

c. Lead Service Line Replacements – Should the deferred balance of customer-owned lead service line replacements be included in rate base?

Staff Position:

No. Staff continues to recommend including carrying costs at the long-term debt rate in the AAO balance, but not to include any costs in rate base. Including the carrying costs in the AAO balance at MAWC's long-term debt rate provides MAWC sufficient recovery of the costs to replace the customer owned service lines. Allowing MAWC to earn an equity return on the lines that are not owned by MAWC would be unreasonable. (McMellen Rebuttal, p. 4: 5-13).

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

Staff Position:

Yes. MAWC should capitalize a portion of depreciation expense on tools and equipment used partly on capital projects to prevent double recovery. (Staff's Cost of Service Report, p. 49: 9-23.) During the year, some tools and equipment are used for both capital projects and operation and maintenance projects. A portion of depreciation expense related to the capital projects should be capitalized and deducted from expense. (McMellen Surrebuttal, p. 6-9.)

e. Cash Working Capital –

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

Staff Position:

The appropriate amount of expense for the Service Company is $31,772,071.

ii. What should the lead and lag treatment for income tax expense be in cash working capital?

Staff Position:

The appropriate expense lag for federal and state income taxes is 52.88 days. MAWC is likely to be paying income taxes next year so it is appropriate to include a lag which reflects quarterly payments. (Staff's Cost of Service Report, p 35-38, Barron Surrebuttal, p 1-2)

iii. American Water Works Service Company Prepaid Billing – Should the Commission authorize MAWC to recover its prepaid billing and payment arrangement as a service expense?

Staff Position:

No. The appropriate expense lag for Service Company expenses is a 75.37 day expense lag. This lag is consistent with MAWC's payment habits for the vast majority of the goods and services that it receives from its third-party vendors. Affiliates of MAWC should not receive preferential treatment. Rather, the affiliate should be treated like other third-party vendors who supply services to the utility. (Staff's Cost of Service Report, p 35-38, Barron Surrebuttal, p 1-2)

f. ADIT –

i. Should MAWC's booked Accumulated Deferred Income Tax (ADIT) include a reduction for net operating loss?

Staff Position:

Yes. An ADIT is meant to offset a utility's tax liability and generate "cost free funds." But, to the extent a utility's taxable income becomes negative due to eligibility of large tax deductions, including bonus depreciation, there is no amount of income tax liability available for the excess deductions to offset and, therefore, no "cost-free funds" for the utility are generated associated with that excess amount. In this situation, the utility must record an offsetting deferred tax asset for NOL. Generally, deferred income taxes associated with all book-tax timing differences created through the ratemaking process should be reflected in rate base. This includes recognition of a deferred tax asset for NOLs when an NOL situation arises for a regulated utility. (Foster Rebuttal, pages 3-4) As MAWC still has a remaining amount of NOL on its books recorded as a deferred tax asset during the pendency of this rate case, it remains appropriate to include the NOL deferred tax asset in rate base at this time. (Foster Rebuttal, p. 5:1-5)

ii. If so, would there be an effect on the level of excess ADIT to be flowed back to rate payers?

Staff Position:

Staff has included the net operating losses in its excess ADIT calculation. If the Commission determines that the net operating loss should be excluded from ADIT, it should also be removed from excess ADIT.

Excess ADIT – What is the appropriate treatment for the flow back of unprotected excess ADIT to rate payers?

Staff Position:

Unprotected Excess Accumulated Deferred Income Taxes (ADIT) should be flowed back over a 5-year period. (Staff's Cost of Service Report, p 77-79, Bolin Rebuttal, p. 20-22, Bolin Surrebuttal, p. 4-6)

Thursday, February 25

Rate of Return / Capital Structure –

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

Staff Position:

Staff recommends, based upon its expert analysis, a return on common equity ("ROE") range of 9.30% to 9.80%, with a point estimate of 9.55%. (Staff's Cost of Service Report, p. 15).

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

Staff Position:

The appropriate capital structure for determining the allowed ROR for Missouri American Water Company's ("MAWC") is American Water Works Company's ("AWC") consolidated capital, as of June 30, 2020, composed of ** ____ ** percent common equity, ** ____ ** percent long-term debt, and ** ____ ** percent preferred stock. (Won Surrebuttal, p. 34). Staff will keep monitoring AWC's updated consolidated capital structure and cost of debt until the true-up data available and will make its final recommendation at that time.[1]

[1] Staff's Data Request No. 0039.5.

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

Staff Position:

The correct cost of debt to be used for setting MAWC's authorized ROR is AWC's consolidated embedded costs of debt and preferred stock of ** ____% ** and ** ____% **, respectively, as of June 30, 2020. [Won Surrebuttal, p. 34].

Staff's recommended authorized ROR is 6.36%. (Won Surrebuttal, p. 34).

Valve / Hydrant Maintenance – How should valve and hydrant maintenance be recorded in the general ledger moving forward?

Staff Position:

The Commission should order MAWC to separately record its various non-labor maintenance costs by categories of maintenance (hydrants, valves, main breaks, building maintenance), in the appropriate USOA accounts in the general ledger with any unique coding necessary to separate the costs. Also, MAWC should be ordered to have a standard system for non-labor maintenance cost recording and associated training for how work orders are established in MapCall and recorded in the general ledger so as to record the various non-labor maintenance categories consistently. (Caldwell Rebuttal, p. 3-4)

Tank Painting Expense –

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

Staff Position:

The appropriate amount of tank painting expense is $1,427,020. (Niemeier Rebuttal, p. 5:7-14). Based on the new tank painting data provided by MAWC on February 3, 2021, Staff plans to true-up tank painting expense using the five-year average for the five 12-month periods ending December 31, 2020.

b. **Capitalization – Should tank painting expense be capitalized going forward?**

Staff Position:

No. Staff relies on guidance from the Uniform System of Accounts. This guidance requires water utilities to capitalize the cost of tank painting for tanks prior to the tanks being put in-service. Since none of MAWC's engineered coating costs included in this case are associated with first-time tank painting, Staff's position is to continue to include the entirety of engineered coating costs as expenses. (McMellen Rebuttal, p. 2: 13-19).

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

Staff Position:

The appropriate amount of main breaks expense is $2,823,052. Staff determined this level by applying a three-year average on data ending June 30, 2020, to determine the average cost per main break incident. Staff multiplied that average cost of main break by the average number of main breaks. The month of January 2018 was normalized due to the excessive number of main breaks that month. (Niemeier Surrebuttal, p. 3-6, beginning line 13). There are no guarantees that there will be a high number of main breaks in every rate case. There were 422 main breaks in January 2018, when the average without that high month is 138 main breaks. Without normalization of January 2018 the average would increase by 97, causing an increase for main break expense of $448,140 per year, for an event where there is no certainty it will occur again. (Niemeier Surrebuttal, p. 3-6).

In WR-2015-0301, when 2014 experienced a high number of main breaks, Staff normalized the month where a high number of main breaks occurred. In the 2017 rate case, Staff agreed to true-up main breaks to remove the 2014 from the average number of main breaks. In this rate case, 2018 will remain in the average number of main breaks in the true-up period. Therefore, a true-up of main breaks will not remove the issue of normalizing a high number of main breaks from the rate case. (Niemeier Surrebuttal, p.6:6-7).

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

Staff Position:

The appropriate amount of maintenance supplies and services is $4,481,303. Staff determined this level by using a three-year average on data ending June 30, 2020. (Niemeier Surrebuttal, p. 3:6-10). The appropriate amount of building maintenance is $1,044,802. Staff determined this level by using a three-year average on data ending June 30, 2020. (Niemeier Surrebuttal, p. 2:22-2). Together, these maintenance expenses total $5,526,105. Staff has accounted for tank painting and main break expense separately.

System Delivery –

a. Water Loss – What is an acceptable level of water loss for the MAWC systems?

Staff Position:

Staff has calculated the following water loss levels: St. Louis County is 23.97% for chemicals and 23.83% for power/fuel expense and All Other Water is 19.04% for chemicals and 18.56% for power/fuel expense. (Staff's Cost of Service Report schedules.)

b. Water Loss Applied to Production Costs – What is the appropriate water loss to apply to chemicals, and fuel and power expense?

Staff Position:

Staff has calculated the following water loss levels: St. Louis County is 23.97% for chemicals and 23.83% for power/fuel expense and All Other Water is 19.04% for chemicals and 18.56% for power/fuel expense. (Staff's Cost of Service Report schedules.)

Staff used a five-year average of water loss applied to Staff's normalized total customer usage to calculate system delivery. This five-year average is used to calculate Staff's annualized amount for both expenses. (Sarver Surrebuttal, p. 4)

c. Main Break Audit – Should MAWC conduct annual audits regarding its water main breaks?

Staff Position:

While Staff believes this information would be useful, Staff does not have a position at this time on whether or not MAWC should conduct annual audits regarding its water main breaks. (Harris surrebuttal p. 2)

d. Water Loss Audit – Should MAWC conduct periodic audits for service areas with greater than 20% lost or unaccounted for water?

Staff Position:

Yes. For systems with higher potential for significant loss control realization, a more comprehensive water audit of these systems would provide parties more useful data. (Harris surrebuttal p. 2)

Friday, February 26

Depreciation – What are the appropriate depreciation rates and resulting expense that should be applied?

Staff Position:

The Commission should order the continued use of rates currently ordered in Case No. WR-2017-0285. The Commission should order MAWC to use the Uniform System of Accounts prescribed by the Commission in 20 CSR 4240-50.030. In addition, the Commission should order MAWC to track retirement data and unit costs for assets in general plant accounts being amortized. (Staff's Cost of Service Report, p. 47-49, Cunigan Rebuttal p. 2-5, Cunigan Surrebuttal p. 1-3.)

Leases – What is the appropriate level of expense for leases to include in the cost of service calculation?

Staff Position:

The appropriate level of lease expense to include in the cost of service is Staff's annualized lease expense of $447,352, which is based on all existing as well as new lease contracts. (Staff Cost of Service Report, p.62)

Insurance Other than Group – What is the appropriate amount of insurance expense to recover in rates?

Staff Position:

Staff recommends that the premiums associated with Directors & Officers coverage be disallowed. Staff's recommended amount of insurance expense is $6,387,125. (Staff's Cost of Service Report p. 63-64; Newkirk Surrebuttal, p. 3-4)

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

Staff Position:

Staff calculated uncollectible expense by using MAWC's net write-offs from the period of January 2017 through December 2019, and normalizing it. Staff's recommendation for the appropriate amount of uncollectible expense is $3,149,169. (Staff's Cost of Service Report p. 70-71; Newkirk Surrebuttal, p. 2)

Outside Services – What is the appropriate amount of expense related to outside services that should be included in the cost of service calculation?

Staff Position:

In order to calculate the appropriate amount of expense related to outside services, Staff reviewed the expenses, normalized the amounts, and calculated a three-year average of MAWC's incurred costs for outside services. Staff's recommendation for the appropriate amount of expense for outside services is $5,806,375. (Staff's Cost of Service Report , p. 68).

Postage Expense – What is the appropriate amount of postage expense to include in the cost of service calculation?

Staff Position:

The appropriate amount of postage expense is $1,867,491. Staff annualized postage expense by applying the 2020 postage rate from the United States Postal Service to the 2019 number of mailings that MAWC provided in response to Data Request 0108. (Staff's Cost of Service Report, p. 69:12-18).The Company also indicated in the Data Request No. 0108 attachment that its postage reporting system changed in December 2019 and that it no longer captures the postage rate categories that it did in previous years (Barron Surrebuttal, p.3:4-21).Staff has submitted an informal request to the Company requesting the 2021 postage rates for the two postage categories that will be captured by the Company going forward. If the Company provides the 2021 postage rates to Staff, then Staff will update its workpaper to include these rates and utilize the 2020 monthly customer mailings to determine its true up postage expense.

Transportation – What is the appropriate level of expense to include in the cost of service calculation for transportation related to fuel?

Staff Position:

The appropriate level of fuel expense to include in the cost of service is $778,282 based on an actual historical level of fuel consumption experienced and then repriced using the average fuel price for the period covering January 2017 through December 2020. (Staff's Cost of Service Report, p.63)

Waste Disposal – What is the appropriate amount to include in the cost of service calculation for waste disposal expense?

Staff Position:

The appropriate amount of waste disposal expense to include in the cost of service is $2,797,916 based on the twelve months ending June 30, 2020. (Staff's Cost of Service Report, p. 68-69).

Monday, March 1

Service Company Costs –

a. **Sale of New York American – Should service company costs be increased to account for the sale of New York American by American Water Works?**
b. **American Water Works Officer Expense – Should the Commission authorize MAWC to recover officer expense for MAWC's corporate officers?**
c. **Credit Line Fee Charge – Should the Commission authorize MAWC to recover credit line fee charges with American Water Service Company as a service expense?**

Staff Position:

Staff takes no position on the specific issues raised in a. b., and c. Generally, Staff reviewed the expenses AWWSC allocated to the AWC subsidiaries, and specifically, Staff reviewed AWC's method used for allocating AWWSC expenses to MAWC. Staff made individual adjustments to some of the AWWSC costs allocated to MAWC, but did not adjust for the specific costs and charges in a., b., and c. (Staff's Cost of Service Report, p. 39-41).

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

Staff Position:

Staff's recommended allocation method uses nine allocation factors that are based on cost causation factors. Staff's recommended method is consistent with Staff's position that the primary driver behind any cost allocation method should be cost causation. (Newkirk Surrebuttal, p. 5-9)

Affiliate Transactions – Should MAWC be required to file a Cost Allocation Manual with the Commission?

Staff Position:

If the Commission decides water and sewer utilities with over 8,000 customers should be included in the affiliate transactions rule as part of Case No. AW-2018-0394, MAWC would then be required to file a CAM. (Bolin Rebuttal, p. 26)

Rate Case Expense –

a. Sharing of Cost – Should rate case expense be shared?

Staff Position:

Yes, rate case expense should be shared. Staff recommends assigning MAWC's discretionary rate case expense to both ratepayers and shareholders based upon a 50/50 split and full recovery of any depreciation studies over five years (Newkirk, Class Cost of Service Study, p. 57, ln. 5-9; Spire Mo., Inc. v. Pub. Serv. Comm'n, --- S.W.3d ---, No. SC97834, 2021 WL 455369, slip op. at 12-14 (Mo. banc Feb. 9, 2021);; Commission Report and Order p. 72, ER-2015-0370 and Commission Report and Order p. 74, ER-2019-0374). The 50/50 split is based on:

i. Rate case expense sharing creates an incentive on the utility's part to control rate case expense to reasonable levels (Staff's Cost of Service Report, p. 58:, 37-38 and p. 59: 1-5);
ii. Both ratepayers and shareholders benefit from the rate case process, with the ratepayer receiving the opportunity to be provided safe and adequate service at a just and reasonable rate and the shareholder receiving an opportunity to receive and adequate return on investment (Staff's Cost of Service Report, p. 59: 6-14).; and
iii. It is fair and equitable to expect shareholders to carry a reasonable portion of the rate case burden (Staff's Cost of Service Report, p. 59: 15-22).

Further, a utility's rate case expenses also play a part in calculating "just and reasonable" rates. Just because an expenditure is deemed prudent does not also deem it "just and reasonable" to include in rates (Spire Missouri, Inc. v. Pub. Serv. Comm'n, No. SC97834, 2021 WL 455369 (Mo. banc Feb. 9, 2021)).

b. Expense - What amount of rate case expense should be borne by the ratepayers?

Staff Position:

The amount of rate case expense that should be borne by the ratepayers is the total of all prudent rate case expense charges for the current case after sharing those costs 50/50 with shareholders. Costs related to customer notices and the depreciation study were not included in the sharing mechanism. Those costs will be fully recovered over the appropriate 36 month normalization period. Staff will include all rate case expense charges incurred through the period of reply briefs related to the current case. (Staff's Cost of Service Report, p. 56-57; Amenthor Surrebuttal, p. 3-4).

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

Staff Position:

The appropriate normalization period for recovery by MAWC for rate case expense in this case, other than the costs related to the depreciation study, is over a 36 month period. This is appropriate because MAWC has consistently filed its general rate cases every three years or 36 months. The depreciation study should be recovered over a 5 year period. (Staff's Cost of Service Report, p.56-57)

Production Costs –

a. Purchased Water – What is the appropriate amount of purchased water expense to recover in rates?

Staff Position:

Staff used a five-year average of billed usage for all service areas except Parkville and City of Lawson. Staff used an 18-month average for Parkville and a 22-month average for the City of Lawson. (Surrebuttal Sarver p. 2) The appropriate amount of purchased water expense is $1,110,119 for MAWC. (Surrebuttal Accounting Schedule)

Purchased Power – What is the appropriate level of expense for purchased power in the cost of service calculation?

Staff Position:

The appropriate amount of purchased power expense is $11,190,280 for MAWC. (Surrebuttal Accounting Schedule)

Tuesday, March 2

Pensions & OPEBs –

a. What is the appropriate amount of Pension & OPEB expenses to be included in rates?

Staff Position:

The appropriate amount of Pension expense to include in rates is $544,937. This represents the amount revised by Staff in its rebuttal filing after applying corrections to Staff's pension tracker balance for rate base. (Staff's Cost of Service Report, p. 53:28-30 – p. 54:1-2; Foster Rebuttal, p. 5:19-23 – p. 6:1-4) The appropriate amount of OPEB expense to include in rates is a negative $6,086,160. This represents the amount revised by Staff in its rebuttal filing after applying corrections to Staff's OPEB tracker balance for rate base. (Staff's Cost of Service Report, p. 54:9-19; Foster Rebuttal, p. 5:19-23 – p. 6:1-4)

b. What is the appropriate amount to include in OPEBs for retiree reimbursements?

Staff Position:

The appropriate amount of retiree medical reimbursements to include in the OPEB tracker balance is a negative $369,616. This is the amount Staff included in its calculation of the OPEB tracker balance. (Foster Surrebuttal, p. 2:16-23 – p. 3:1-2)

Lobbying Expense – What is the appropriate amount of payroll tied to lobbying expense?

Staff Position:

The appropriate amount of lobbying expense tied to payroll is $22,488. Staff has a long-standing policy of excluding all amounts related to lobbying expenses by utilities since these activities are generally entered into to promote shareholder interests and not the interests of ratepayers. (Staff's Cost of Service Report p. 60:1-8). Since direct was filed, Staff has made two modifications and one correction to their lobbying expense workpaper. After reviewing Missouri American Water Company's ("MAWC") response to Midwest Energy Consumers Group Data Request No. 2-0022, Staff excluded a portion of the employee expenses incurred by ** ________________________________ __________ ** (based on her percentage of time spent on lobbying) which Staff had not previously reviewed. (Barron Rebuttal, p. 1-2). Finally, Staff updated the number of work hours from 2,080 to 2,088 in its lobbying expense workpaper since Staff is updating all payroll to reflect 2,088 hours. (Barron Surrebuttal, p. 4:1-18)

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

Staff Position

Incentive compensation related to EPS and other financial goals should be excluded in the cost of service calculation. It is inappropriate to include incentive compensation that is tied to EPS and other financial goals that are designed to primarily benefit the shareholder and not the ratepayer. Staff reviewed the collective bargaining agreement provided in response to DR 377 and did not find any information regarding Union employee payouts, thus Staff's position remains unchanged. (Arabian Surrebuttal, p. 4).

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

Staff Position:

ESPP should not be included in the cost of service calculation. Staff excluded these costs since there is no actual cash outlay. (Arabian Surrebuttal, p. 3-4).

Payroll Expense –

a. Employee Positions – Should the Commission include currently vacant and temporary payroll positions when calculating MAWC's operating expense?

Staff Position:

No, payroll should be based on known employee levels at a certain date, normally the end of the test year, to be updated for known and measurable changes through an update period, which in this case is June 30, 2020. During true-up, staff will also update its calculations based on known employee levels as of December 31, 2020. (Arabian Surrebuttal, p. 1-2).

b. Service Company Payroll – What level of payroll for American Water Service Company personnel should the Commission include in rates?

Staff Position:

Staff used the percentage allocated for each AWWSC's personnel towards Missouri to calculate payroll, payroll tax, 401K, and group insurance. Based on the payroll changes made during surrebuttal, the annualized levels for payroll expense is $12,671,613, payroll tax is $899,333, 401K is $349,046, and group insurance is $1,963,244. The levels of payroll for AWWSC will be updated based on known employee levels as of December 31, 2020 in true up. (Arabian Surrebuttal, p. 2-3).

Employee / Management Expense – What level of employee / management expense should be included in the calculation of cost of service?

Staff Position:

The level of employee/management expense that Staff determined should be included in the calculation of cost of service is $1,052,684. Staff reviewed individual expenses for both MAWC and AWWSC to determine whether to allow or disallow the expense. If Staff deemed a particular expense to be imprudent and excessive and not the benefit of the taxpayers, it was disallowed. (Arabian Rebuttal, p. 2).

Wednesday, March 3

Usage Normalization – **What is the appropriate level of normalized annual usage that the Commission should adopt for calculating normalized revenues for each rate class and service territory?**

Staff Position:

For commercial, industrial, and other public authority (OPA) customers' water usage, Staff determined the customer usage based on Rate A (meter rate for residential, commercial, and small industrial customers) or Rate J (for manufacturers and large quantity users of water) as of June 30, 2020. Based on the customers (Rate A or Rate J) as of June 30, 2020, Staff reviewed 5 years of usage data. For the Sale for Resale revenues, Staff used a five-year average to normalize usage or consumption for all profit centers except Warsaw, St. Charles, and Joplin. Warsaw and Joplin added additional wells and saw usage decline; therefore, Staff used the update period usage. For St. Charles, Staff used the updated period usage since they started to resell water starting January 2020. (Cost of Service p. 44-45)

The appropriate method to utilize in calculating the level of normalized usage for residential customers is Staff's method of a five-year average. Robertson surrebuttal, Page 3 lines 17-20 and Page 4 lines 1-5.

Water Utility Revenues – **What are the appropriate revenues to use to determine the increase or decrease in water service revenue requirement?**

Staff Position:

The appropriate amount of revenues to include in the cost of service is $223,018,553 for St. Louis County and $93,353,393 for All Other Water. (Staff's Surrebuttal Accounting Schedule)

a. Residential Revenue – What is the appropriate number of meters for fixed or customer charge to be used for revenues?

Staff Position:

Staff used the June 30, 2020, meter count for the annual customer charge for all customer classes in its direct filing because it is known and measurable. (Sarver Surrebuttal, p. 8.) For residential revenues, the June 30, 2020, meter count is 433,677.

b. Non-Residential Revenues – What is the appropriate annualized number of meters level for each revenue class?

Staff Position:

Staff used the June 30, 2020, meter count for the annual customer charge for all customer classes in its direct filing because it is known and measurable. (Sarver Surrebuttal, p. 8.) For non-residential revenues, the June 30, 2020, meter count includes the following:

- Industrial: 357
- Commercial: 26,484
- Sale for Resale: 38
- Private Fire: 8,432
- OPA: 1,859

Sewer Utility Revenues – What are the appropriate revenues to use to determine the increase or decrease in sewer service revenue requirement?

Staff Position:

The appropriate amount of revenues to include in the cost of service is $5,449,237 for Arnold and $5,591,618 for All Other Sewer. (Surrebuttal Accounting Schedule)

a. What is the appropriate number of units to be used for fixed or customer charge?

Staff Position:

MAWC had 9,860 units for Arnold and 8,471 for All Other Sewer as of June 30, 2020. (Sarver Direct Testimony Workpapers.)

Revenue Stabilization Mechanism (RSM) –

a. Should the Commission approve a Revenue Stabilization Mechanism for MAWC? And 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?

Staff Position:

No. Staff does not recommend that the Commission adopt an RSM at this time. (Staff Report on Class Cost of Service and Rate Design, p. 12-14; Busch Rebuttal, p. 3-16.)

b. If so, is there a change in business risk that may be taken into account in setting MAWC's authorized return on equity?

Staff Position:

Alternatively, if the Commission does approve an RSM, the Commission should authorize a reduction in ROE or a change in capital structure to address the lower risk associated with an RSM. (Busch Rebuttal, p. 17)

Thursday, March 4

Water Rate Design

a. Single Tariff Pricing / District Specific Pricing – Should the Commission keep the current water district structure, or adopt single tariff pricing for the water customers?

Staff Position:

Staff recommends that the Commission maintain the current two (2) district approach that it approved in MAWC's last rate case, Case No. WR-2017-0285. The two districts are the St. Louis County service area and the All Other MO service area (Barnes Rebuttal, p. 5: 4-7).

b. Industrial Class – Should MAWC create an industrial customer class (Rate L)? Should the Commission eliminate Rate J and begin the migration of customers that do not qualify for a new Rate L to Rate A?

Staff Position:

Not at this time. It is Staff's position that if MAWC wishes to create a new large industrial class in its next rate proceeding, MAWC should file a class cost of service study for the Company's proposed Rate L customers. MAWC should also file a separate cost of service study for its Rate J customers that do not qualify for Rate L service under MAWC's proposed qualifications. This would enable the Commission to evaluate whether a new separate large industrial class should be created (Barnes Rebuttal, p. 11: 4-13).

If the Commission were to approve MAWC's creation of a large industrial customer class (Rate L), Staff recommends that the Commission set the credit for the current Rate J customers to 25% of the Rate A rate versus MAWC's proposed 50%, to evenly and fairly spread out the credit over MAWC's next three (3) rate cases. (Barnes Surrebuttal, p. 3:1-19).

c. Class Costs –

i. What is the appropriate cost of service for each customer class?

Staff Position:

Staff recommends that the Commission approve Staff's Class Cost of Service using the "base-extra capacity" method as outlined in the American Water Works Association Manual of Water Supply Practices, Principals of Water Rates, Fees, and Charges, Seventh Edition (AWWA M1), which is the method generally accepted by the industry and utilized in past MAWC rate cases by both Staff and MAWC (Staff's Class Cost of Service Report, p 2: 23-27).

ii. What is the appropriate methodology for conducting the class cost of service study

Staff Position:

Staff recommends that the Commission approve Staff's methodology for conducting an appropriate Class Cost of Service Study. It is Staff's opinion that the CCOS study correctly allocates the cost of providing service to each customer classification in each of the districts. To develop rates, Staff used the results of its CCOS study and created Rates A, B, and J. Rate A combines residential, commercial, other public authorities and smaller industrial customers; Rate B is sale for resale; and Rate J is for industrial customers who meet certain usage requirements. These rates are consistent with MAWC's currently approved tariffs (Staff's Class Cost of Service Report, p. 6: 11-16).

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

Staff Position:

Staff now recommends that the Commission maintain the current customer charges that it approved in MAWC's last rate case, WR-2017-0285 (Barnes Surrebuttal, p. 4: 11-12).

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

Staff Position:

Staff recommends that the Commission approve Staff's commodity charge for each district, which are listed in the table below for Rate A, Rate B and Rate J:

St. Louis County Service Area

Customer Class	Current Rates	Proposed Rates	Percent Increase/Decrease
Rate A	$ 4.7814	$ 4.7569	-0.51%
Rate B	$ 2.6194	$ 1.7569	-32.93%
Rate J	$ 1.7680	$ 2.1824	23.44%

All Other Missouri Service Area

Customer Class	Current Rates	Proposed Rates	Percent Increase/Decrease
Rate A	$ 6.2469	$ 5.7640	-7.73%
Rate B	$ 2.6194	$ 1.7569	-32.93%
Rate J	$ 2.8268	$ 2.5936	-8.25%

f. Sunnydale Rate Designation – Should Sunnydale be placed on Rate J, or in the alternative, Rate J1?

Staff Position:

Staff has not taken a position on this issue.

Sewer Rate Design

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

Staff Position:

Staff recommends that the Commission maintain the current rate designs for the Arnold Service Area, District A and B remain in place, and the Lawson Sewer Service Area be moved within District B (Staff's Class Cost of Service Report, p. 11: 16-18).

Low-Income Rate –

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

Staff Position:

Yes, the Commission should maintain the current Low Income Rate pilot program since more customers have applied since the beginning of the COVID-19 pandemic that started in the spring of 2020. Staff further recommends that the Commission order MAWC, OPC, and Staff to re-evaluate the effectiveness of the program in MAWC's next general rate case (Barnes Rebuttal, p. 14:4-13).

b. Should the Commission authorize MAWC to expand its Low-Income Rate pilot program?

Staff Position:

Staff recommends that the current program be continued (Barnes Rebuttal, p. 14:4-13).

c. What is the appropriate design of the Low Income Rate?

Staff Position:

Staff recommends that MAWC's customer charge remain the same as the customer charge the Commission approved in MAWC's last rate case (Barnes Surrebuttal, p. 4:2-27). This recommendation will not alter the Low Income Rate for the pilot program as the rate is composed of an 80% discount of the monthly customer charge (Staff's Class Cost of Service Report, p. 8:4-9). Staff recommends that the Commission approve the current Low-Income Rate that it approved in MAWC's last rate case.

Friday, March 9

Inclining Block Rates –

a. Should the Commission re-authorize MAWC's inclining block pilot program in its Mexico service area?

Staff Position:

Yes, Staff recommends that the Commission reauthorize MAWC's inclining block pilot program in its Mexico service area because (1) continuation can help determine if an inclining block rate does impact customer behavior; (2) the disruption of Customer's lives to the COVID-19 pandemic can continue to provide even more precise data as to customer water usage by MAWC's next rate case; and (3) resetting block 2 and 3, as recommended by Staff, may help provide better data to analyze in the future (Rebuttal Testimony of Matthew J Barnes, p. 13, ln. 3-21).

b. What are the appropriate blocks for the inclining block rate pilot program?

Staff Position:

The appropriate blocks for the inclining block rate pilot program are Block 1 (up to 3, 000 gallons), Block 2 (up to 7, 000 gallons) with a inclining factor of 1.3 times Block 1, and Block 3 (over 10, 000 gallons) with a inclining factor of 1.8 times Block 1 (Rebuttal Testimony of Matthew J Barnes, p. 13, ln. 22-23).

WHEREFORE, Staff respectfully submits its position statements on the issues in this case.

Respectfully submitted,

***/s/* Mark Johnson**
Mark Johnson
Deputy Counsel
Missouri Bar No. 64940
P.O. Box 360
Jefferson City, MO 65102
573-751-7431 (Voice)
573-751-9285 (Fax)
mark.johnson@psc.mo.gov

/s/ Whitney Payne
Whitney Payne
Senior Counsel
Missouri Bar No. 64078
Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8706 (Telephone)
(573) 751-9285 (Fax)
whitney.payne@psc.mo.gov

Attorneys for the Staff of the
Missouri Public Service Commission

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile, or electronically mailed to all parties and or counsel of record on this 18th day of February, 2021.

/s/ Mark Johnson