

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of Missouri-American Water Company )  
Request for Authority to Implement a General Rate ) **Case No. WR-2015-0301**  
Increase for Water and Sewer Service Provided in )  
Missouri Service Areas )

**STAFF’S STATEMENT OF POSITIONS ON THE ISSUES**

**COMES NOW** the Staff of the Missouri Public Service Commission, by and through counsel, and for its *Statement of Positions on the Issues*,<sup>1</sup> states as follows:

**1. Regulatory Policy**

Relying on traditional, cost-of-service ratemaking techniques, the Commission should set rates for MAWC that are just and reasonable, designed to permit recovery of the prudent costs incurred in providing service to ratepayers, and which allow a reasonable opportunity to earn a fair return on the value of the private assets committed to the public service. That fair return should reflect the realities of the capital market environment in which MAWC operates. Throughout, the Commission’s lodestar should be its obligation to protect the ratepayers from the monopoly power of the utility. Staff’s position presents the Commission with the most reasonable approach to meet its obligations to allow MAWC an opportunity to earn a fair return while also protecting the ratepayers.

**2. Cost of Capital and Capital Structure**

*A. What Capital Structure should be used in this case?*

The Commission should adopt American Water’s consolidated capital structure as of December 31, 2015, for purposes of setting MAWC’s allowed rate of return.

*B. What Return on Equity (“ROE”) should be allowed?*

The Commission allow a ROE of 9.25%, based on a range of 8.5% to 9.5%.

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<sup>1</sup> Based on the *Amended Joint List of Issues*, etc.

*C. What reduction to ROE should be imposed, if any, if the Revenue Stabilization Mechanism and/or Environmental Cost Adjustment Mechanism proposed by MAWC is adopted?*

A reduction of 15-20 basis points for the RSM.

*D. Should the allowed ROE include common stock issuance expenses?*

No.

### **3. Revenue Stabilization Mechanism Proposal**

*Should the Commission adopt the Revenue Stabilization Mechanism proposed by MAWC?*

No, the Commission should not adopt the RSM proposed by MAWC. Staff opposes MAWC's proposal since MAWC did not go into sufficient detail to explain how the RSM would actually work. Generically, the RSM would allow MAWC to make adjustments to non-industrial customer's bills to reflect lower usage levels or higher usage levels to ensure that MAWC collects the amount of revenues that the Commission authorizes in this case.

### **4. District Allocations**

*Should a cap of \$20 per customer be imposed on allocations of Corporate A&G expenses and Service Company expenses to small districts?*

No. Staff recommends allocating the Corporate A&G and Service Company expenses to all districts based upon the same allocation factors, with no difference in allocation methodology between the small and large districts. Staff does not believe that an annual \$20 per customer cap on allocation of Corporate A&G and Service Company expenses is warranted. Staff's analysis does not show that a disproportionate amount of Corporate A&G and Service Company expenses would be allocated to the small (less than 3,000 customers) districts without the \$20 per customer cap. Also, MAWC's study that claims the \$20 per customer cap is reasonable is flawed in that it does not include costs such as administrative and general salaries and benefits in its analysis of the comparable small Missouri utilities. These items are a major component of the corporate costs allocated to MAWC's districts.

## **5. Faulty Metering Issue**

*How should the Commission address the faulty metering issue?*

The Commission should open an investigatory docket regarding this issue, which Staff learned of on February 22, 2016, when MAWC first informed the Staff about problems that it was experiencing with several thousands of water meters that were installed between 2012 and early 2015. The faulty meters do not accurately report customer usage. Staff urges the Commission to open an investigatory docket so that Staff may investigate this significant issue and report its findings to the Commission.

## **6. Environmental Cost Adjustment Mechanism (“ECAM”) Proposal**

*Should an ECAM be approved in this case as proposed by MAWC and, if so, what conditions, if any, should be implemented?*

Missouri American, as part of this rate case, applied for approval of an ECAM. An ECAM allows periodic rate adjustments outside of a rate case to reflect net increases or decreases in a water utility's prudently incurred costs directly related to compliance with Federal, State, or local environmental laws. As a practical matter, an ECAM would function similar to the way that the ISRS functioned. Staff is not opposed to granting an ECAM in this rate case, subject to certain conditions, and subject to all of the limitations and requirements found in 4 CSR 240-50.050. No waivers from regulatory requirements should be granted, and specific requirements such as the 2.5% cap should be calculated and included in the tariff. In addition, any future ECAM rate application by MAWC should reflect the comprehensive impact of all positive and negative incremental revenue requirement effects of the triggering environmental laws or regulations. Further, no ECAM rate filing should be made by MAWC unless the requested net rate increase impact on customers is \$500,000 or more on annual basis. With the full requirements and limitations of the law, an ECAM can be implemented in a just and reasonable manner.

## **7. Business Transformation Program**

*Has American Water Works allocated an appropriate share of the costs of this program to Missouri?*

Staff's position is that it is reasonable to allocate a portion of the Business Transformation costs to American' Water's non-regulated operations, however, MAWC has not provided Staff with the information necessary to determine if the costs were properly allocated between regulated and non-regulated entities.

## **8. Service Company Costs**

*Are the costs charged to MAWC by the Service Company for the various services it provides reasonable and appropriate?*

Staff is not able to verify that the results presented in the rebuttal testimony of MAWC witness Patrick L. Baryenbruch are correct or represent a fair comparison to the costs MAWC incurs through the Service Company. For example, Mr. Baryenbruch compares service company charges for electric and natural gas companies to the service company charges for MAWC. This may not be a good comparison due to the comparison group not being a water company. Also, Staff could not determine if the services provided by the sample service companies in Mr. Baryenbruch's study were the same services provided to MAWC.

## **9. Income Taxes**

*A. Should the Commission adopt the adjustment for the Domestic Production Activities Deduction ("DPAD") proposed by OPC?*

Yes. Staff supports OPC's position on this issue and believes that, had MAWC taken advantage of this tax deduction, it would have reduced its tax burden. The reason MAWC was unable to take advantage of this tax benefit is because MAWC files a consolidated tax return with American Water Works Company, Inc. ("AWW"), its parent company, and the fact that the parent company had a net operating loss.

*B. What is the appropriate amount of Deferred Income Tax expense to include in the cost of service calculation?*

The appropriate amount of MAWC's deferred income tax expense for this case is \$6,155,639, based upon Staff's analysis of the tax impact of tax-timing differences resulting from contributions-in-aid-of construction ("CIAC"), advances for construction, tax straight-line depreciation, and accelerated depreciation at the composite tax rate of 38.39%.

## 10. Energy Efficiency

*A. Should the Commission adopt the capital deferral mechanism and collaborative proposed by MoDOE to incentivize MAWC to increase supply-side energy efficiency and water loss reduction investment?*

The Commission should not adopt the MoDOE capital deferral proposal in this case but, as an alternative, could establish a collaborative for further study as to whether the concept of capital deferral for supply-side energy efficiency and water loss reduction projects is appropriate, and to determine the parameters governing any such deferral mechanism, including delineation of the spending threshold and limit, criteria to define the projects eligible for inclusion, criteria to determine the cost effectiveness of the covered projects, and agreement that the concept of capital deferral for the projects is acceptable.

*B. Should the Commission adopt the demand-side water efficiency program and collaborative proposed by MoDOE?*

The Commission should not adopt the MoDOE program proposal in this case but, as an alternative, could establish a collaborative to explore whether or not stakeholders can agree that such spending would be cost effective or otherwise beneficial to ratepayers, and also to determine how the spending would be handled with regard to rate design.

## 11. Depreciation Issues

*A. What is the appropriate depreciation rate to apply to sewer CIAC?*

The Commission should order MAWC to use sewer depreciation rates to accrue CIAC not water rates as Company is currently doing.

*B. Should amounts relating to sewer assets placed by MAWC in water rate base accounts and vice versa be excluded from the cost of service calculation?*

Yes. Staff is recommending that balances booked in sewer districts, in water accounts be adjusted to zero. Staff recommends such adjustments because these balances are inappropriate and were present at direct, brought to MAWC's attention, and were still present at true-up.

*C. Given that every water and sewer district has at least one USOA account improperly carrying a negative reserve balance, should Staff's recommended adjustments be adopted?*

Yes. Staff's adjustments should be ordered by the Commission. In this case, neither MAWC nor its depreciation consultant analyzed plant and reserve balances on a district level, and evidently did not notice the improper negative reserve balances..

*D. Should the depreciation reserve adjustment of \$23,555 recommended by Staff for Ozark Meadows be adopted to offset the improper negative reserve account and, if so, should it be amortized to rates over five years?*

Yes, because reserves within the Ozark Meadows sewer district do not exist to cover the negative reserve.

*E. Has MAWC failed to depreciate the Business Transformation Program as required by the Stipulation and Agreement in Case No. WR-2011-0337, and, if so, how should this be resolved?*

The Commission should find that MAWC is in violation of the *Order Approving Stipulation and Agreement* in Case No. WR-2011-0337, and direct MAWC to comply going forward.

*F. Should the depreciation rates ordered in Case No. WR-2011-0337 be continued in effect as recommended by Staff?*

Yes. Staff did not perform a depreciation study for this case.

*G. Should MAWC be permitted to use the Remaining Life Method on all but general plant accounts?*

No. MAWC's request to use Remaining Life is not how it is performed on electric companies. They are recommending a weighted remaining life, not a district/ facility specific remaining life. MAWC's recommended treatment is inappropriate because all of MAWC's facilities are not going to be removed from service on the same day.

*H. How should the retirement of the Parkville Water Treatment Plant be handled?*

Staff recommended current ordered rates continue to be utilized for Parkville. According to MAWC testimony in WR-2011-0337, the process to acquire land and proper permitting and ultimate construction of a new facility would take 5-6 years. At Staff's Site visit in October, MAWC personnel informed Staff that land had not been purchased and no final design had yet been approved. However, on Friday March 4, Depreciation Staff was notified by the Manager of Water and Sewer unit at the Commission that at a public meeting on March 3, 2016, MAWC informed the public that land had been acquired to build new water

treatment facility and that the Company planned to break ground very soon and anticipated completion of new facility by December 2017.

*I. Should MAWC be allowed to use General Plant Amortization on selected general plant accounts?*

No. MAWC should be ordered to maintain current practices for recording assets to these accounts.

## **12. Capitalized O&M Depreciation**

*Should MAWC capitalize a portion of depreciation expense on tools and equipment partly used on capital projects?*

Staff maintains that MAWC should capitalize a portion of depreciation expense from the major and minor accounts for 392 Transportation Equipment, 394 Tools, Shop, and Garage Equipment, and 396 Power Operated Equipment, based on the amount of time the assets in these accounts are used for capital projects. Since MAWC is not currently capitalizing depreciation for these accounts, Staff requests the Commission order MAWC to start tracking the time these assets are used for capital purposes and capitalize depreciation accordingly.

## **13. Property Taxes Expense**

*Should Property Tax Expense be calculated based on actual known and measureable expenses or on estimated expenses not payable until December 2016?*

Staff recommends that property tax expense be calculated based on actual known and measureable payments made in 2015, rather than on an estimation of what payments will be made at a time well beyond the true-up period.

## **14. Main Break Expense**

*How should Main Break Expense be calculated?*

Staff recommends that main break expense be calculated based on a normalized average number of main break incidents multiplied by the actual cost per break in 2014.

## 15. Lobbying Expense

*Should the following items be excluded from the cost of service calculation?*

### A. MEDA expense?

MEDA is a lobbying organization that develops, organizes, and promotes measures that advance the interests of investor-owned utilities in Missouri. Staff asserts that MEDA annual dues and other related costs should be booked below-the-line for ratemaking purposes and be absorbed by the shareholders. The Staff recommends that the Commission disallow all MEDA expense that MAWC recorded above the line.

### B. A portion of 10 Service Company salaries for lobbying-related job duties?

The Commission should exclude from rates a portion of ten MAWC/AWWSC employees' salaries based on job descriptions that define lobbying-related job duties.

## 16. Legal Expense

*Should Legal Expense be based on actual payments or on accruals?*

Staff recommends that legal expense be based on actual payments rather than on accruals.

## 17. Affiliate Transaction Rulemaking

*Should the Commission open a separate case to consider adopting an affiliate transaction rule for water companies?*

Staff is reviewing all of the Commission's rules under the 5-year requirement. As such, Staff has had conversations on this issue.

## 18. Payroll & Payroll Taxes

*A. Should a scheduled raise that will take effect after the end of the true-up period be included in the cost of service calculation?*

No. The Commission should deny inclusion of the raise in its cost-of-service calculation, since it does not take into account changes in all relevant factors and violates the matching principle.

*B. How much overtime should be included in the cost of service calculation?*

For MAWC specific overtime, Staff recommends including a level of overtime for MAWC based upon a five-year average. A five-year average will smooth out the spikes in overtime that occur, such as the unusual levels that were necessary to address main break repairs due to the polar vortex. Based upon a five-year average, Staff recommends \$2,614,918 for MAWC overtime.

For Service Company overtime allocated to MAWC, Staff recommends the \$269,962 test-year level.

*C. How much Service Company payroll and related expenses should be included in the cost of service calculation?*

For labor, \$9,500,137. For Service Company overtime, allocated to MAWC, Staff recommends the \$269,962 test-year level. For payroll taxes, \$746,102.

## **19. Dues & Donations Expense**

*Should state-level Chamber of Commerce expenses be excluded from rates?*

Yes. Staff has included all costs for dues to local and municipal-level Chambers of Commerce in the cost of service calculation. The Staff recommends that the Commission exclude State-level Chamber of Commerce dues from rates, consistent with past Commission precedent for this issue, based on the State Chamber's lobbying function.

## **20. Atrazine Settlement**

*A. Should the amount received through the Atrazine Settlement be shared 50-50 between ratepayers and shareholders or 100 percent be allocated to ratepayers?*

The entire settlement amount should be returned to the ratepayers.

*B. What is the appropriate amortization period to return the regulatory liability amount to ratepayers, three years or five years?*

MAWC should be required to return the entire atrazine settlement amount to ratepayers over a period of five years.

## **21. Other Employee Benefits & Group Insurance**

*A. What is the appropriate level of other employee benefits to include in rates for MAWC and Service Company?*

Staff recommends including the annualized cost of the other employee benefits (401K, VEBA) calculated on an employee-by-employee basis as of January 31, 2016. For MAWC, that amount is \$788,721 For Service Company, that amount is \$233,094.

*B. What is the appropriate level of group insurance to include in rates for MAWC and Service Company?*

Staff recommends including the annualized cost of group insurance calculated on an employee-by-employee basis as of January 31, 2016. For MAWC, that amount is \$4,752,703. For Service Company, that amount is \$1,347,559.

## **22. Pension and OPEBs Expense**

*A. What is appropriate amount of pension and OPEBS expense to include in the cost of service calculation?*

Pension expense should be treated in rates using a minimum ERISA (the Employee Retirement Income Security Act of 1974) calculation, and OPEBs funded based upon MAWC's FAS 106 expense as calculated by the actuaries.

*B. Should the pension tracker allow for rate base treatment of differences between the amount of MAWC's cash investment in its pension trust fund and its rate recovery for pension expense?*

The Pension Tracker should account for the difference between the amount of pension expense included in MAWC's rates and the amount funded by MAWC based on minimum ERISA (the Employee Retirement Income Security Act of 1974). OPEB Tracker should account for the difference between the amount of the OPEBs expense included in MAWC's rates and the FAS 106 amount recorded on MAWC's books and funded by the Company shall be tracked and included in Company's rate base.

## **23. Rents & Leases Expense**

*A. What amount should be included in the cost of service calculation for Transportation Lease Expense?*

\$249,450 should be included in the cost of service calculation for Transportation Lease Expense, which removes the cost for all vehicle leases that were expired as of January 31, 2016.

*B. What amount should be included in the cost of service calculation for other leases?*

\$293,146 should be included in the cost of service calculation for other leases, which removes the cost of expired leases and annualizes any leases that were modified to reflect an ongoing level of expense.

## **24. Miscellaneous Expenses**

*What miscellaneous expense items should be included in the cost of service calculation?*

Staff recommends that the Commission only include amounts that are necessary for the provision of safe and adequate service.

## **25. Rate Case Expense**

*A. Over what period should rate case expense be normalized?*

Staff recommends that rate case expense be normalized over a 2.5-year period, based on the average duration of intervals between MAWC rate cases since rate case No. WR-2013-0500.

*B. Should this expense be shared between rate payers and shareholders? If so, how?*

Yes, Staff recommends that rate case expense be shared between ratepayers and shareholders in the same manner as was ordered by the Commission in Kansas City Power & Light Company rate case No. ER-2014-0370, where the normalized amount of rate case expense prudently and reasonably incurred was multiplied by a percentage equal to the revenue requirement increase granted divided by the total revenue requirement increase requested. Staff recommends that all rate case expense incurred by MAWC, with the exception of the cost of the depreciation study, be shared in this manner.

*C. What expenses should be included in rate case expense?*

Staff recommends that all expenses which were reasonably and prudently incurred in relation to this MAWC rate case, WR-2015-0301, be included in rate case expense.

## **26. Purchased Water Expense**

*What is the appropriate level of expense to reflect in rates for the Spring Valley district for purchased water?*

\$33,639 should be included in the cost-of-service calculation for Spring Valley purchased water expense.

## **27. Emerald Pointe Pipeline Rate Base Treatment**

*Should the cost associated with the portion of a pipeline that was contributed to the City of Hollister be included in rate base?*

The portion of the Emerald Pointe pipeline that is not owned by Emerald Pointe should not be included in MAWC's rate base as a regulatory asset. Emerald Pointe, now MAWC, does not own this portion of pipeline. The cost outlay for the pipeline is being recovered through a 50-year amortization which MAWC assumed when they purchased Emerald Pointe.

## **28. Electricity, Fuel and Heating Oil Expense**

What is the appropriate level of electricity, fuel and heating oil expense to include in rates?

\$13,795,874 should be included in the cost of service calculation for fuel and electricity expense; and \$225,684 should be included in the cost of service calculation for heating oil expense.

## **29. Cash Working Capital**

*A. What is the appropriate billing lag?*

The appropriate billing lag is 2.09 days.

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

An expense lag of 24.71 days is the appropriate treatment for affiliate Service Company charges to MAWC.

## **30. Arnold Plant Amortization**

*A. Should costs related to a treatment plant owned by MSD but used by MAWC under contract be amortized over the life of the asset or the term of the contract?*

Staff maintains that MAWC should amortize the costs related to a treatment plant owned by MSD but used by MAWC over the term of the contract they have agreed to with MSD.

*B. Should the difference between the contractual amount being amortized over the contract term or life of the asset be included in rate base?*

No amount should be included in rate base. MAWC does not own the MSD pipeline and wastewater treatment plant assets. MAWC is recovering all cost outlays for their percentage of non-utility plant costs dollar-for-dollar in an amortization that Staff is including in expense based on the contract between MSD and MAWC.

### **31. District Consolidation/Consolidated Pricing**

*Should the Commission adopt the consolidation of districts proposed by Staff, the alternative consolidation proposed by MAWC, or maintain the status quo as proposed by OPC?*

Staff supports combining the water districts into three 'hybrid' districts. These districts are based on operating characteristics and geography. MAWC has purchased many systems over the years and provides service to various service territories throughout the state. Moving towards consolidation will allow for just and reasonable rates throughout the service area and will help to mitigate future rate shock. Consolidation will also help save money by reducing the number cost of service and class cost of service studies that MAWC and Staff have to prepare.

### **32. Rate Design & Customer Charge**

*A. How should rates be designed?*

Rates should be designed based on Staff's recommendation that utilizes the principles of the base-extra capacity method.

*B. How should the customer charge be adjusted?*

Rates should be designed based on Staff's recommendation that utilizes the principles of the base-extra capacity method.

*C. How should purchased power expense be allocated?*

Staff has no position on this sub-issue.

### **33. Incentive Compensation Expense**

*Should Incentive Compensation related to earnings per share ("EPS") and other financial goals be included in the cost of service calculation?*

No. Staff has removed the portion of the annual incentive compensation plan (“AIP”) that is based on earnings per share (“EPS”), as well as all of the long term incentive compensation (“LTIP”). These plans are based on financial goals that are solely for the benefit of the shareholders and the cost should not be borne by the ratepayers. Staff also removed a portion of the plant-in-service and depreciation reserve to adjust for capitalized AWWSC incentive compensation (AIP and LTIP).

### **34. Low-Income Tariff**

*Should the Commission adopt a low-income tariff for MAWC?*

No. While the impact of increasing water costs is an important issue for discussion, creating a low-income rate at this time without the appropriate level of study is premature.

### **35. Relocation Expense**

*What amount of relocation expense should be included in the cost of service calculation?*

The Commission should include a three-year average of relocation expense, ending December 31, 2014.

### **36. Waste Disposal Expense**

*What amount of waste disposal expense should be included in the cost of service calculation?*

Staff determined an annualized amount of waste disposal expense to include in its cost-of-service calculation by reviewing historical costs rather than future estimated expenses. Staff’s position is that rates should be set based on known and measurable amounts. In total this amount is \$1,584,277

### **37. Residential Customer Usage/Revenues**

*A. How should normalized residential usage be determined for calculating revenues?*

Staff proposes to use a five-year average of residential customer usage to determine normalized usage. Staff’s position is that a five-year average is sufficient to determine customer usage for the period between rate cases. Staff’s proposal takes into account any historical changes in usage patterns as well as variations in weather and uses the most recent data to determine normal usage. Recently, Staff became aware of an issue with

meters that may impact the usage data that MAWC and Staff used. This potential issue may distort the data in such a way that it skews usage patterns to an even bigger decrease than is actually occurring in the system.

*B. Is the Company experiencing declining usage?*

No. While usage may vary significantly from year to year, Staff does not agree that Company's data is a reliable indicator of a declining trend in usage.

**38. Non-Residential Revenues**

*A. What is the appropriate annualized customer level for each revenue class?*

Staff has used the actual level of customers as of January 31, 2016, for each customer class and district.

*B. What is the appropriate annualized revenue to include in rates for all non-residential categories?*

The amount of annualized operating revenues that should be included in rates for water operations is \$254,936,536, \$8,356,956 for sewer operations, for total Company operating revenues of \$263,293,492.

*C. Should 5-year averages be used in calculating Miscellaneous Revenues or should the Test Year values be used?*

Miscellaneous Revenues should be calculated to reflect the most current contractual terms when applicable. Non-contractual miscellaneous revenues should be based upon proper annualization and normalization methodologies.

**39. Miscellaneous Charges**

*Should existing miscellaneous charges be modified and, if so, how?*

Missouri American has purchased several water and sewer utilities in recent years. As part of the acquisition process, MAWC has adopted the existing miscellaneous charges in the former utility's tariff. These charges cover services like turning on and turning off service, temporary use of water from a fire hydrant, etc. This acquisition and adoption process has resulted in a series of tariff pages that are difficult to read and difficult to interpret with respect to which charges apply to which service areas. Because the previously-approved charges were based on costs for different companies to perform a service at some point in the past, there

are now different charges for the same service between different service areas. If you live in one subdivision in Taney County, you may pay a much different charge for the same service than your neighbors in a different subdivision in Taney County, even though it is provided by the same company.

MAWC proposed to maintain the current charges in their tariff sheets. Staff requested supporting information on the costs to perform the services supported by the Miscellaneous Charges in a Data Request. MAWC performed a statewide cost-of-service study, providing average labor time and cost for each task. Staff utilized this study to propose that the Miscellaneous Charges be consolidated and made consistent among service areas. Previously-approved charges that are unique to a service area, such as the actual cost of MAWC installing a new service connection for a newly-constructed residence, would be maintained as they now appear in the tariff. Staff believes such consolidation will be a benefit to ratepayers in bringing charges in line with actual company costs, and making the tariff more simple and easy to understand.

#### **40. Infrastructure System Replacement Surcharge (ISRS)**

*How should the Commission address the Western District Court of Appeal's opinion in WD78792?*

It would not be appropriate to address this issue until the litigation is final. At this time, the litigation is not yet final.

#### **41. Chemicals Expense**

*What amount of chemicals expense should be included in the cost of service calculation?*

\$10,786,272 should be included in the cost of service calculation for chemicals expense.

#### **42. Insurance Other Than Group Expense**

What amount of insurance expense should be included in the cost of service calculation with respect to the following items:

*A. Directors and Officers Liability Policy? Kidnap and Ransom Insurance?*

The Commission should exclude all costs related to the directors and officers liability policy.

*B. MAWC's proposed retrospective accrual adjustment?*

The Commission should exclude all costs related to the MAWC's retrospective accrual estimate and instead set rates based upon actual known and measurable costs.

**43. Advertising Expense**

*What amount of advertising expense should be included in the cost of service calculation?*

Staff recommends that the amount of advertising expense included in the cost-of-service calculation should be equal to the cost incurred to produce advertisements which Staff has classified as General or Safety. Staff makes this recommendation in accordance with the guidance provided by the Commission's *Report and Order* in the KCP&L Case Nos. EO-85-185 and EO-85-224.

**44. Promotional Items Expense**

*What amount of expense relating to promotional giveaway items should be included in the cost of service calculation?*

The Commission should disallow all costs associated with promotional giveaway items. These costs are not necessary in the provision of safe and adequate service and do not fall under the characterization of "educational."

**45. Tank Painting Expense & Tank Painting Tracker**

*A. Should the tank painting tracker be continued?*

No. Staff recommends discontinuing the Tank Painting & Inspection Expense Tracker. Staff contends that tank painting is a normal maintenance expense that does not rise to the level of significance to merit continuous tracking. Staff contends that any fluctuations in the expense can be addressed through traditional ratemaking techniques.

*B. If so, what should the base be?*

If the tracker is to be continued, Staff recommends including its annualized expense amount of \$1,302,772 as the base level.

*C. How much tank painting expense should be included in the cost of service calculation for the amortization of the regulatory asset?*

Staff recommends amortizing the regulatory asset over a five-year period, or \$276,588 annually.

#### **46. Postage Expense**

*What amount of postage expense should be included in the cost of service calculation?*

\$2,557,212 should be included in the cost of service calculation for postage expense, based on the actual number of mailings, for twelve months ending January 31, 2016, for each postage rate class that MAWC uses and adjusted to include the annual mailing cost for Arnold and Hickory Hills.

#### **47. Union Issues**

*A. Should the Commission condition any rate increase upon MAWC's filling unfilled bargaining unit positions?*

No, Staff considers this request to be contrary to the public interest.

*B. Should the Commission order semi-annual reporting of various items as urged by the Unions?*

Staff has no position on this sub-issue.

*C. Should the Commission order MAWC to comply with and implement American Water Works' valve maintenance program?*

Staff expects MAWC to undertake such valve maintenance as is necessary to ensure the continued delivery of safe and adequate service.

#### **48. Corporate Franchise Tax**

*What amount should be excluded from the cost of service calculation for the expired Missouri franchise tax?*

The Commission should exclude franchise tax expenses from the cost of service calculation. The Missouri franchise tax liability expired on January 1, 2016.

#### 49. Outside Services

*What amount of outside services should be excluded from the cost of service calculation?*

The Commission should exclude specific expenses that were allocated from AWWSC for outside services that were determined to be one-time, non-recurring events.

#### 50. General Ledger

*Should the Commission require MAWC to keep its General Ledger in accordance with the USOA?*

Yes. This is already required by Rule 4 CSR 24-10.010(3)(A) and 4 CSR 240-50.030(1).

**WHEREFORE**, Staff prays that the Commission will accept its *Statement of Positions on the Issues*.

Respectfully submitted,

**/s/ Kevin A. Thompson**

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Attorneys for the Staff of the  
Missouri Public Service Commission

## **CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing was served, either electronically or by hand delivery or by First Class United States Mail, postage prepaid, on this 10<sup>th</sup> day of March, 2016, on the parties of record as set out on the official Service List maintained by the Data Center of the Missouri Public Service Commission for this case.

**/s/ Kevin A. Thompson**