

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

In the Matter of Missouri-American Water)	
Company's Request for Authority to Implement)	File Nos. WR-2022-0303
General Rate Increase for Water and Sewer)	SR-2022-0304
Service Provided in Missouri Service Areas.)	

**MOTION TO ESTABLISH TEST YEAR, TRUE-UP DATE
AND DISCRETE ADJUSTMENTS**

COMES NOW Missouri-American Water Company ("MAWC" or "Company") and moves the Missouri Public Service Commission ("Commission") to establish a test year, true-up date and discrete adjustments as described herein. In support, MAWC respectfully states as follows:

INTRODUCTION

1. In this case, MAWC proposes the use of a test year consisting of the twelve months ended June 30, 2022, with a true-up period ending December 31, 2022, plus certain discrete adjustments beyond the true-up period. The proposed test year, true-up, and discrete adjustment periods are addressed in the prepared direct testimony and schedules of MAWC witness Brian W. LaGrand.

2. In determining rates, the Commission may consider all facts that in its judgment have a bearing on the proper determination of rates. *See* Section 393.270.4, RSMo.; *State of Mo. ex rel. Pub. Counsel v. PSC of Mo.*, 397 S.W.3d 441 (Mo. App. W.D., 2012). "A decision on the appropriate test period and adjustments to be used when establishing rates is a factual determination. *State ex. rel. GTE North, Ins. v. Missouri Public Service Commission*, 835 S.W.2d 356 (Mo. App. W.D., 1992). The Commission has allowed parties to present further adjustments for the Commission's consideration based upon projected and forecasted data past the true-up date. *See In the Matter of Missouri-American Water Company's Request for Authority to Implement*

General Rate Increase, Order Regarding Test Year, Case No. WR-2017-0285 (August 9, 2017). Both the test year as updated and the true-up are devices employed to reduce regulatory lag, which is "the lapse of time between a change in revenue requirement and the reflection of that change in rates." *See In the Matter of Lake Region Water & Sewer Company*, Report and Order, 2010 Mo. PSC LEXIS 794, Case No. SR-2010-0110 (August 18, 2010). Historical returns for MAWC show that the test year and true-up periods commonly used by the Commission have not been adequate for this purpose and the use of discrete adjustments is necessary to move the Commission closer to its goal of affording the utility an opportunity to recover a reasonable return on the investments it has devoted to public service.

TEST YEAR

3. For purposes of this case, MAWC proposes a historical test year consisting of the twelve months ended June 30, 2022. At the time of filing, the historical test year is based on nine (9) months of actuals through March 31, 2022, and three (3) months of estimates through June 30, 2022. MAWC expects that within 30 days of filing this case it will provide the parties with the actuals for the historical test year ended June 30, 2022, replacing the estimated June 30, 2022 historical test year. Consistent with prior cases, MAWC will provide updated detailed data through June 30, 2022, including a revenue requirement calculation as of June 30, 2022.

TRUE-UP

4. MAWC moves the Commission to establish a true-up period as of the 12 months ended December 31, 2022.

5. The true-up process is a tool that can be used to advance the goal of establishing a "reasonable expected level of earnings, expenses and investments" "at a time as close as

possible to the period when the rates in question will be in effect." *In re Kansas City Power & Light Company*, 26 Mo. P.S.C. (N.S.) 104, 110 (1983) (emphasis added). The Commission further stated in *Kansas City Power & Light Company* that "[t]he true-up procedure has received broad acceptance as a proper ratemaking tool. A true-up permits adjustments outside of the test year without improperly disturbing the revenue-expense relationship." *Id.*

6. MAWC's true-up proposal in this case is driven primarily by the significant amount of investment that will be placed into service during the true-up period. Based on current projections, MAWC anticipates that approximately \$195 million¹ of plant will be placed into service between July 1, 2022 and December 31, 2022.

7. A true-up period has been recognized by the Commission for decades, including the Company's last ten general rate cases (Cases Nos. WR-2000-281, WR-2000-844, WR-2003-0500, WR-2007-0216, WR-2008-0311, WR-2009-0131, WR-2011-0337, WR-2015-0301, WR-2017-0285, and WR-2020-0344).

8. The Company seeks inclusion in its revenue requirement and rates of certain revenues that will be experienced, expenses that will be incurred, investments that will be made on or before December 31, 2022. The items of revenue, expense and investment that the Company proposes to true-up for its existing properties, and any properties acquired prior to the conclusion of the true-up period, are as follows:

Rate Base:

- Plant in service
- Accumulated Reserve for Depreciation
- Accumulated Deferred Income Taxes

¹ UPIS Net Additions (minus assumed retirements and advances/contributions). Gross UPIS additions would be approximately \$224 million.

- Customer Advances
- Contributions in Aid of Construction
- Materials and Supplies
- Prepayments
- Pension Asset
- Pension Tracker Balance
- OPEB Tracker Balance
- Deferred Customer Owned Lead Service Lines
- Other Deferred Regulatory Assets and Liabilities
- Impact of Closed Acquisitions
- Property Tax Tracker (if law is effective at true-up date)
- Related Cash Working Capital Impact

Cost of Capital:

- Capital Structure
- Cost of Debt
- Cost of Preferred Stock

Revenue and Expense:

- Number of Meters
- Residential and Non-Residential Customer Usage
- Fuel and Power Expenses
- Chemical Expense
- Purchased Water Expense
- Waste Disposal

- Support Services Expense
- Transportation Fuel and Maintenance
- Payroll – Employee Levels, Wage Rates and Related Benefits
- Rate Case Expense
- Uncollectibles Expense
- Depreciation and Amortization Expense
- Production Maintenance Expense
- Tank Painting Expense
- Pension and OPEB Expense
- Injuries and Damages Expense
- Property Taxes
- PSC Assessment
- Impact of Closed Acquisitions
- Accruals for Sludge Removal
- Related Income Tax Impact

9. MAWC’s package of adjustments is proposed with the intent of maintaining the proper matching of revenue, expense and rate base. The use of the true-up period would aid in extending the test year toward a "reasonable expected level of earnings, expenses and investments" for the Company.

DISCRETE ADJUSTMENTS

10. The Commission is charged with establishing rates that are just and reasonable. As described in the Commission’s *Order Approving Non-Unanimous Stipulation and Agreement* in Case No. WR-2011-0337:

A “just and reasonable” rate is one that is fair to both the utility and its customers. It is no more than is sufficient to “keep public utility plants in proper repair for effective public service, [and]. . . to insure to the investors a reasonable return upon funds invested.” The Commission’s guiding purpose in setting rates is to protect the consumer against the natural monopoly of the public utility, generally the sole provider of a public necessity. However, the Commission must also afford the utility an opportunity to recover a reasonable return on the assets it has devoted to the public service.

11. As explained in the Direct Testimony of MAWC witness LaGrand, over approximately the last decade the Commission has approved rates suggesting that a reasonable return on equity for the Company is between 9.50% and 10.00%. Between 2012 and 2021, the actual return on equity has fallen far short of that reasonable return in every year, except 2012, when there was a record drought in Missouri and across the country. This is due primarily to the historical test year used to establish rates and the regulatory lag on significant investments.

12. Utilizing the Company’s annual financials, and inclusive of ISRS and WSIRA, the Company has averaged an actual return on equity of 8.52% between 2012 and 2021, as shown in Table BWL-1 below. This is roughly 100 basis points below the range of 9.50% to 10.00% found to be reasonable by the Commission.

Table BWL-1

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net Income	\$49.4	\$38.5	\$42.5	\$40.2	\$47.7	\$46.6	\$55.9	\$62.6	\$68.8	\$70.5
Average Equity	\$441.0	\$460.6	\$479.8	\$505.8	\$548.0	\$607.7	\$664.4	\$730.9	\$857.2	\$943.9
Return on Equity	11.19%	8.37%	8.86%	7.95%	8.71%	7.67%	8.42%	8.57%	8.03%	7.46%

Average Return 2012 - 2021	8.52%
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13. In this case, and based on current projections, MAWC anticipates that approximately \$78 million² of plant not eligible for recovery under WSIRA will be placed into service between January 1, 2023 and May 31, 2023 (the approximate operation of law date for rates in this case). Additionally, several other known changes will also negatively impact

² UPIS Net Additions (minus assumed retirements and advances/contributions). Gross UPIS additions would be approximately \$91 million.

MAWC's opportunity to recover a reasonable return on the assets it has devoted to the public service.

14. In MAWC's last two general rate cases (Cases Nos. WR-2017-0285, and WR-2020-0344), MAWC has highlighted this issue and proposed the use of a future test year as a possible solution. In both cases, the Commission, while not ordering the use of a future test year, has permitted the parties to present adjustments beyond the true-up period based upon projected or forecasted data. *See In the Matter of Missouri-American Water Company's Request for Authority to Implement General Rate Increase, Order Regarding Test Year, File No. WR-2017-0285 (August 9, 2017) and In the Matter of Missouri-American Water Company's Request for Authority to Implement General Rate Increase, Order Setting Test Year and Adopting Procedural Schedule, File No. WR-2020-0344 (August 26, 2020).*

Consistent with that approach, MAWC is seeking inclusion in its revenue requirement and rates discrete adjustments to certain rate base and expense items beyond the requested true-up date, through May 31, 2023. MAWC witness Wesley Selinger describes the adjustments to rate base, cost of capital and expenses in further detail in his Direct Testimony including the following:

- Select capital projects that are not eligible for WSIRA that will go in service prior to the operation of law date in this case, including annualized depreciation and property taxes;
- Changes to the Company's capital structure and cost of debt through the operation of law date;
- Selected known and measurable operating expense adjustments that will be in effect prior to the operation of law date including:
 - Company and Service Company union & non-union wage

adjustments, and related costs such as payroll taxes, 401(k), group insurance, pension, and OPEB cost changes;

- Production cost price changes for chemicals, fuel & power, purchased water, and waste disposal;
- Insurance Other Than Group policy cost changes; and
- Other contracted price changes.

As mentioned above, the proposal for discrete adjustments is sought in response to the approach taken by the Commission in MAWC's last two general rate cases and to present a more complete picture of the Company's operations as of the operation law date associated with this rate case.

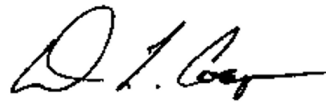
CONCLUSION

15. If MAWC's request for the true-up and discrete adjustments is denied and the above-enumerated items of expenses and investments are not considered in the setting of its rates, MAWC will be denied a reasonable opportunity to earn the authorized rate of return that the Commission determines is appropriate in this proceeding.

16. MAWC's proposed adjustments will maintain the proper matching of revenue, expense, and rate base. The Courts have previously acknowledged that the true-up process is helpful in addressing the goal of establishing a "reasonable expected level of earnings, expenses and investments" "at a time as close as possible to the period when the rates in question will be in effect." *In re Kansas City Power & Light Company*, 26 Mo. P.S.C. (N.S.) 104, 110 (1983) (emphasis added). The true-up alone falls short of this objective. Accordingly, MAWC's proposal to incorporate discrete adjustments in this case should be granted.

WHEREFORE, MAWC respectfully requests that the Commission issue its order adopting a test year for use in this case comprised of the twelve months ended June 30, 2022, as trued-up through December 31, 2022, with discrete adjustments through May 31, 2023.

Respectfully submitted,



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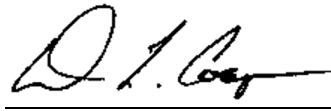
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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been sent by electronic mail this 1st day of July 2022, to:

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D. J. Coe