

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

In the Matter of Missouri-American Water)
Company’s Request for Authority to Implement)
General Rate Increase for Water and Sewer)
Service Provided in Missouri Service Areas.)

Case No. WR-2022-0303

STAFF’S STATEMENTS OF POSITIONS

COMES NOW the Staff of the Missouri Public Service Commission (Staff), through counsel, provides its *Statements of Positions*.

Monday, February 27

Regulatory Deferrals: Should Missouri-American Water Company (“MAWC”) be allowed to defer depreciation expense as soon as new plant investment is placed into service? Should MAWC be allowed to capitalize post-in-service carrying costs?

Staff’s Position: No. Currently MAWC recovers a large percentage of plant additions incurred between rate cases through the Water and Sewer Investment Rate Adjustment (“WSIRA”), thus the WSIRA mechanism provides sufficient earnings protection to MAWC’s plant additions. (Bolin Rebuttal, p 17-23; Bolin Surrebuttal, p 2-5)

Tuesday, February 28

ROE / Capital Structure / Cost of Debt

What is the appropriate return on equity (“ROE”) to be used to determine the rate of return?

Staff’s Position: Staff recommends an authorized ROE of 9.73% in a range of reasonableness of 9.48% to 9.98%. (Jennings Direct, Schedule RTJ-d16)

What capital structure should be used to determine the rate of return?

Staff’s Position: The most economical capital structure to use is MAWC parent company’s, American Water Works Company, Inc. (“AWWC”) actual capital structure as of June 30, 2022, composed of 40.71% common equity, 0.02% preferred stock, and 59.28% long-term debt. Staff will continue to monitor AWWC’s and MAWC’s capital structures through the true-up period and will make its final recommendation at that time. (Jennings Direct, Schedule RTJ-d16)

What is the appropriate cost of debt to use to determine the rate of return?

Staff's Position: The appropriate cost of debt to use in setting the prospective rates of MAWC is AWWC's cost of debt as of June 30, 2022, which was ** [REDACTED] **. Staff will continue to monitor AWWC's and MAWC's cost of debt through the true-up period and will make its final recommendation at that time. (Jennings Direct, Schedule RTJ-d7)

Should the authorized rate of return be adjusted to consider the Commission's approval/disapproval of MAWC's request for a Revenue Stabilization Mechanism (RSM) and/or a Post in Service Carrying Cost Capitalization Mechanism?

Staff's Position:

If the Commission does approve a RSM for MAWC, it is imperative that a recognition of the lower business risk borne by MAWC be recognized in the determination of the ultimate revenue requirement. (Busch Rebuttal, p. 11, lines 1-11) All businesses face risk that their revenues will not be as robust as forecasted, and thus investors require a risk reward for that uncertainty. If revenues are all but guaranteed, uncertainty fades and risk is reduced. (Busch Rebuttal, p. 10, lines 2-4)

Allowance for Funds Used During Construction

What is the appropriate capitalization rate to apply to construction work in progress?

Staff's Position: Staff takes no position on this issue.

Customer Programs

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

Staff's Position: Staff takes no position on this issue.

Late Fees

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

Staff's Position: Staff takes no position on this issue.

Wednesday, March 1

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

Staff's Position: The only discrete adjustments that should be allowed are adjustments that are known and measurable and inclusion does not skew the matching principle. Timing of the adjustment must allow enough time for Staff review to determine if the adjustment is appropriate to include in the cost of service. Plant that is not used and useful in time for Staff to conduct an audit should also not be included as a discrete adjustment. (Bolin Direct, p 4-9; Bolin Rebuttal, p. 13-17; Bolin Surrebuttal, p. 5-8)

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

Staff's Position: The appropriate amount of property tax to include in MAWC's cost of service is \$31,053,157. Staff reviewed all the 2021 property tax assessments and property taxes paid to determine its property tax expense. As part of its true-up audit, Staff will review the 2022 property tax assessments and any known material changes to determine its true-up property taxes expense. (Horton Rebuttal, p. 8-9, lines 19-23, and 1-4 and Rebuttal Accounting Schedule 10 and Horton Surrebuttal, p. 8-9, lines 16-22 and 1-2)

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

Staff's Position: No. The types of costs MAWC is requesting to track are ongoing cost of service items incurred by most water and sewer utilities and do not meet the criteria of when a tracker is appropriate. (Bolin Rebuttal, p 2-9)

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

Staff's Position: The appropriate amount of bad debt expense is \$3,298,708. Staff reviewed five years of net charge-offs for the January 2016 through December 2021 period. Staff excluded the 2020 net charge-offs from its calculations due to the impacts of the COVID-19 pandemic. Staff determined a three-year average of the net charge-offs for the calendar years of 2018, 2019, and 2021 was appropriate due to bad debt expense varying greatly from 2014 to 2022. (Horton Direct, p. 22-23; Horton Rebuttal, p.4-7; and Rebuttal Accounting Schedule 10).

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

Staff's Position: No. Bad debt expense is an ongoing cost of service item incurred by all major utilities. Bad debt expense does not meet the criteria of when a tracker is appropriate. (Bolin Rebuttal, p 2-8)

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

Staff's Position: No. The types of costs MAWC is requesting to track are ongoing cost of service items incurred by most water and sewer utilities and do not meet the criteria of when a tracker is appropriate. (Bolin Rebuttal, p 2-9)

In its direct filing, Staff used standard ratemaking principles, using historical costs as a starting point, to determine a reasonable level for fuel and power, chemicals, waste disposal, and purchased water expense for the test year period ending June 30, 2022. Staff will review and update these costs in the true-up phase of this case for the period ending December 31, 2022. Staff's approach is to adjust MAWC's historical financial results to bring Staff's recommended ratemaking allowance as close as possible to the point in time when new rates will be in effect, without the need for a tracker. Staff analyzed five years of production costs for the period ending June 30, 2022. Staff witness Ashley Sarver annualized fuel and power expense and then normalized chemicals and purchased water, while Staff witness Angela Niemeier annualized waste disposal expense. Staff recommends a normalized production expense level of \$32,030,050. (Sarver Rebuttal pgs. 3-4)

Amortization of Regulatory Assets:

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

Staff's Position: 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, pgs. 2-3)

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

Staff's Position: MAWC should be allowed to recover the costs it incurred to operate the City of Purcell's systems prior to MAWC's acquisition of them, but should refund to ratepayers any future payments from the City of Purcell. The appropriate accounting treatment of MAWC's costs to operate the City of Purcell's systems prior to its acquisition

would be to include the total amount incurred of \$122,235 as an amortization in the cost of service. As part of its true-up audit, Staff will review the updated amortization data to determine if any further adjustments need to be made. (Horton Surrebuttal, p. 11, lines 12-24; p. 12, lines 1-24.)

CIAC / Amortization of CIAC: What is the appropriate amount of Contributions in Aid of Construction (“CIAC”) and amortized CIAC to include in MAWC’s cost of service?

Staff’s Position: Staff annualized CIAC and CIAC amortization balances in the amounts of \$405,922,098 and \$110,422,995, respectively, as of June 30, 2022, for all MAWC profit centers. (Branson Direct, p. 2)

Thursday, March 2

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

Staff’s Position: Staff takes no position on this issue.

Extension of Company Mains Rule:

Should the Commission allow MAWC to change its tariff Rule 23 Extension of Company Mains? If so, should the 120-day time frame be removed?

Staff’s Position: Yes, the Commission should allow MAWC to change its tariff Rule 23 by removing the 120-day time frame and implementing a 75:25 refunding ratio. (Williams Rebuttal, p. 5, lines 13-15)

Should the Commission adopt MAWC’s proposed 65:35 funding ratio? Should the Commission adopt Staff’s proposed 75:25 funding ratio?

Staff’s Position: Using the 25% refund is a conservative approach while being conscientious of the impact on MAWC customers. (Williams Rebuttal, p. 5, lines 8-9)

Utility Excavation Coordination:

Should MAWC be ordered to meet with Staff and OPC to discuss coordinating main replacement with municipalities and other public utilities and to report its efforts to pursue cost savings?

Staff’s Position: No. This issue has been examined in previous rate cases, and Staff remains satisfied that MAWC is doing what it can to conduct planned projects in

coordination with planned roadwork by local government entities. (Roos Rebuttal p. 7, lines 4-6)

Should the Commission open a working docket to explore cost savings practices?

Staff's Position: No. This issue has been examined in previous rate cases, and Staff remains satisfied that MAWC is doing what it can to conduct planned projects in coordination with planned roadwork by local government entities. (Roos Rebuttal p. 7, lines 4-6)

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

Staff's Position: Staff takes no position on this issue.

Deferred Customer Lead Lines:

How should the unamortized balance be treated?

Staff's Position: Staff continues to recommend including carrying costs at the long-term debt rate in the AAO balance, but not to include any costs in the revenue requirement related to the unamortized deferred balance. 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. 1-4)

Should MAWC provide information regarding its lead line replacement program in future WSIRA cases as proposed by OPC witness Marke?

Staff's Position: Staff takes no position on this issue.

Income Taxes / Water Sewer Infrastructure Rate Adjustment (WSIRA):

Should income taxes be included in MAWC's cost of service?

Staff's Position: Income taxes should be included in MAWC's cost of service. Like many other expenses, income tax is an expense recoverable in rates. Therefore, it is appropriate to calculate income tax to incorporate the impact of a utility's increased revenue requirement in order to maintain the "matching principle" of revenues to expenses. (Foster Surrebuttal, p. 4-5)

If so, what is the appropriate methodology for determining how much should be included?

Staff's Position: Current income tax for this case has been calculated by Staff consistent with the methodology used in the five prior MAWC rate cases, Case Nos. WR-2010-0131, WR-2011-0337, WR-2015-0301, WR-2017-0285, and WR-2020-0344. Adjustments are made to net income to compute the current income tax expense. These adjustments are effectuated by taking adjusted net income and either adding to or subtracting from the net income various timing differences to obtain net taxable income for ratemaking purposes. (The term "timing differences" refers to the differences in time when certain costs can be deducted for purposes of determining financial statement net income and taxable income, respectively.) The adjustments are the result of various financial statement ("book") and tax timing differences, as well as their implementation under separate tax ratemaking methods: flow-through versus normalization. The resulting net taxable income for ratemaking is then multiplied by the appropriate federal and state tax rates to obtain the current provision for income taxes. Staff used the current federal tax rate of 21 (twenty-one) percent and the state income tax rate of 4 (four) percent, in calculating MAWC's income tax liability. The difference between the calculated current income tax provision and the per book income tax provision is the current income tax provision adjustment. (Foster Direct, p. 14)

Should the rate of return the Commission establishes for the WSIRA include income tax?

Staff's Position: Yes, for the same reasons previously stated in response to the question "*Should income taxes be included in MAWC's cost of service?*"

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

Staff's Position: MAWC's ADIT represents, in effect, a net prepayment of income taxes by customers prior to tax payment by MAWC. For example, because MAWC is allowed to deduct depreciation expense on an accelerated basis for income tax purposes, the amount of depreciation expense used as a deduction for income taxes purposes by MAWC is considerably higher than the amount of depreciation expense used for ratemaking purposes. This results in what is referred to as a "book-tax timing difference," and creates a deferral of income tax reserves to the future. The net credit balance in the ADIT account's reserve represents a source of cost-free funds to MAWC. Therefore, MAWC's rate base is reduced by the ADIT balance to avoid having customers pay a return on funds that are provided cost-free to MAWC. Generally, deferred income taxes associated with all book-tax timing differences created through the ratemaking process should be reflected in rate base. (Foster Direct, p. 16)

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

Staff's Position: Staff is not opposed to entertaining this proposal but would like to have discussions with MAWC representatives to determine if there are any long-range implications to this approach to be considered before reaching agreement. (Foster Surrebuttal, p. 3-4)

Friday, March 3

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

Staff's Position: The appropriate amount of advertising expense is \$63,956. Staff reviewed all advertisements and associated invoices provided by MAWC and disallowed advertising expenses that were not required in order to provide safe and adequate service. Staff allowed expenses that provided general information that was useful for the provision of safe and reliable service. (Horton Direct, p. 21-22, lines 16-23, and 1-12.)

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

Staff's Position: The appropriate amount of outside services to include in MAWC's cost of service is \$3,491,226. Staff reviewed all the outside services expense booked to the general ledger from July 1, 2019, through June 30, 2022. Staff also reviewed a sample of invoices and the engineered coating costs booked to outside services expense. After review, Staff calculated a three-year average of the outside services expense incurred during the 12 months ending June 30, for years 2020, 2021, and 2022. Then Staff removed the engineered coating costs from its average to determine its level of outside services expense. (Horton Direct, p. 25, lines 1-19)

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

Staff's Position: The appropriate amount of credit card and e-check fees to include in MAWC's cost of service is \$1,142,578. Staff reviewed the number of customers paying by credit card and the number of customers paying by e-check from January 2020 through June 2022, provided by MAWC. To determine credit card fees, Staff multiplied the actual number of credit card payments that occurred during the test year by the \$1.50 transaction fee. To determine e-check fees, Staff multiplied the actual number of e-check payments that occurred during the test year by the \$0.45 transaction fee. (Horton Rebuttal, p. 9, lines 10-16 and Rebuttal Accounting Schedule 10)

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

Staff's Position: Staff has a long-standing policy of excluding all amounts related to lobbying expense by utilities, since these activities general promote shareholder interests and are not expended in the interest of ratepayers. Staff disallowed all costs related to lobbying expenses, including payroll, taxes, benefits, etc. in the amount of \$8,732. (Horton, Direct p. 4, lines 12-15 and Horton Surrebuttal, p. 4, lines 5-11)

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

Staff's Position: The appropriate amount of depreciation reserve to include in MAWC's cost of service is \$616,356,169. (Surrebuttal Accounting 2)

Rate Case Expense:

Should rate case expense be shared between ratepayers and shareholders and, if so, how?

Staff's Position: Yes, rate case expense should be shared. Staff recommends that MAWC's customers and shareholders equally share rate case expense. Staff recommends continuing to include in rate base 100 percent of the cost of the depreciation study MAWC submitted in Case No. WR-2020-0344. Staff's recommendation to share rate case expense is based upon the following: 1) Rate case expense sharing creates an incentive for the utility to control rate case expenses to a reasonable level, while eliminating the disincentive for the utility to control the rate case expenses. 2) Ratepayers and shareholders both benefit from the rate case process. While ratepayers receive safe and adequate service at just and reasonable rates, shareholders are afforded the opportunity to earn an adequate return on their investment. 3) Ratepayers will continue to pay for the majority of the rate case expenses regardless of any sharing mechanism when including the internal labor costs that are not included in the sharing mechanism, therefore it is fair and equitable to allocate a portion of the rate case expenses to the shareholders. 4) It is highly probable that some recommendations advocated by the utility through the rate case process will ultimately be determined to be not in the public interest by the Commission.

This 50/50 sharing mechanism is consistent with the Commission's most recent decision concerning rate case expense in the Spire Missouri Case Nos. GR-2017-0215 and GR-2017-0216. The Missouri Supreme Court recently upheld the Commission's decision. (Spire Missouri, Inc. v. Pub. Serv. Comm'n, 618 S.W.3d 225, 233 (Mo. banc 2021). (Sarver Direct p. 16-18)

What is the appropriate accounting treatment of rate case expense?

Staff's Position: The appropriate accounting treatment of rate case expense is to normalize the expense over a three-year period to smooth out the fluctuating costs. (Horton Surrebuttal, p. 5-8)

Should MAWC be allowed to recover the unamortized rate case expense attributable to Case Number WR-2020-0344?

Staff's Position: No. MAWC should not be allowed to recoup the remaining unrecovered rate case expense costs incurred from Case No. WR-2020-0344. In fact, normalizing rate case expense provides MAWC an incentive to control rate case expense, because a utility may or may not recover all of the rate case expense costs through the normalized amount. Normalizing rate case expense rewards a utility for efficient operations that avoids the need to file rate cases more often than anticipated. (Horton Surrebuttal, p. 5-8).

Should MAWC be allowed to recover the legal expenses attributable to Barnes and Thornburg LLP?

Staff's Position: Staff will review the Barnes and Thornburg LLP expenses in its true-up audit. (Horton Surrebuttal, p. 5-8)

Monday, March 6

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

Staff's Position: No. Staff recommends that the Commission reject MAWC's proposal in this proceeding. (Busch Rebuttal, p. 3, lines 15-16) The RSM is designed to all but guarantee that the utility will receive its authorized revenues. The Commission does not guarantee a utility will earn its authorized revenue. (Busch Rebuttal, p. 2, lines 21-22) The claims that the RSM will help the company promote conservation is not supported by the current actions of the company. MAWC is already encouraging conservation without the need of an RSM. (Busch Rebuttal, p. 5, line 7) The RSM, as designed is simply a way for the utility to shift risk away from shareholders to customers without any recognition of this shifted risk. (Busch Rebuttal, p. 8, lines 20-23 and p. 9, lines 1-14)

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

Staff's Position: The appropriate amount of labor to include in MAWC's cost of service for MAWC is \$38,624,106 and for the Service Company employees is \$11,361,238. (Horton Direct, p. 6, lines 7-8 and Surrebuttal Accounting Schedule 10)

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

Staff's Position: Staff has no position on this issue.

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

Staff's Position: The appropriate amount of payroll taxes to include in MAWC's cost of service for MAWC is \$2,963,578 and for the Service Company is \$787,090. Payroll tax expense is directly related to salaries and wages. Staff applied the current Federal Insurance Contributions Act ("FICA"), Federal Unemployment Tax Act ("FUTA"), and State Unemployment Tax Act ("SUTA") tax rates applicable to annualized payroll amounts to determine payroll taxes. (Horton Direct, p. 6, lines 9-14.

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

Staff's Position: The appropriate amount of employee expenses to include in MAWC's cost of service is \$1,194,796. Staff reviewed all the invoices that MAWC provided and disallowed employee expenses that are not required for MAWC to provide safe and reliable service. (Horton Direct, p. 2-4 and Horton Surrebuttal, p. 13-16)

Affiliate Transactions Rules:

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

Staff's Position: MAWC currently files an unapproved Cost Allocation Manual. Currently there are no affiliate transactions rules that require MAWC to file a Cost Allocation Manual. (Bolin Rebuttal, p. 23-24)

Should the Commission open a new rulemaking docket in order to draft affiliate transactions rules for water and sewer?

Staff's Position: Rather than opening a new rulemaking docket to draft affiliate transactions rules for water and sewer utilities, Staff prefers continuing to work with the other parties and stakeholders in Case No. AW-2018-0394 to draft new affiliate transactions rules for qualifying water and sewer utilities. (Bolin Rebuttal, p. 23-24)

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

Staff's Position: Staff has no position on this issue.

Tuesday, March 7

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

Staff's Position: Non-union employees annual performance plan ("APP") compensation related to MAWC's financial performance should not be included in MAWC's cost of service. Staff reviewed a confidential list of the MAWC and American Water Works Service Company, Inc. ("Service Company") employees who received APP during 2022 and determined each employee's eligibility to participate in APP. Staff is recommending 100% allowance of the APP paid out to union employees only, based solely upon the confidential National Benefits Agreement ("NBA"). However, Staff is recommending a 50% disallowance of APP for non-union employees due to it being tied to MAWC's financial performance. There has been no connection found between the financial results for which incentives are awarded and tangible benefits to ratepayers. (Horton Direct, p. 7-10 and Horton Surrebuttal, p. 4-5)

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

Staff's Position: The appropriate amount of Service Company costs to include in MAWC's cost of service is \$32,011,051.

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

Staff's Position: Staff proposes to use nine allocation factors, which are the same nine factors that Staff used in MAWC's prior rate case, WR-2020-0344. These factors are based on customer count, operating revenue, operations and maintenance ("O&M") expense, employee count, number of bills, length of mains, net utility plant, Massachusetts formula, and water test samples. (Sarver Direct p 9) Staff reviewed each account description to see which allocation factor is most reasonable to use. Using Staff's multiple allocation factors is more practical for allocating costs according to cost causation than MAWC's blanket approach using just the number of service orders. (Sarver Surrebuttal, p. 8)

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

Staff's Position: The balances in the regulatory liability account for pensions is \$7,494,260 (amortized over five years as an expense in the amount of \$1,498,852) and OPEBs is \$7,063,923 (amortized over five year as an expense in the amount of \$1,412,784). (Sarver Surrebuttal, p. 9)

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

Staff's Position: The appropriate amount of employee benefits to include in MAWC's cost of service for MAWC is \$9,881,462 and for the Service Company is \$1,592,692. (Surrebuttal Accounting Schedule 10) MAWC and the Service Company offer additional benefits to their employees, including a 401(k) employer match, Voluntary Employees' Beneficiary Association Plan ("VEBA"), Defined Contribution Plan ("DCP"), Employee Stock Purchase Plan ("ESPP"), and various types of insurance (medical, dental, vision, etc.). For each MAWC and Service Company employee, Staff annualized the benefits, with the exception of ESPP. Staff disallowed the ESPP expense from its payroll since there is no cash outlay. MAWC is simply offering its employees to purchase American Water Works Corporation, Inc. ("AWWC") stock at a 15% discount. (Horton Direct, p. 6-7; Horton Rebuttal, p. 7-8; and Horton Surrebuttal, p. 2-3)

Wednesday, March 8

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

Staff's Position: The appropriate amount of insurance expense is \$7,036,631 (Surrebuttal Accounting Schedule 9). Staff used the most current receipts to calculate this expense. Staff plans to update in true-up for known and measurable increases. (Niemeier Surrebuttal, p. 11:18- 17)

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

Staff's Position: These costs should continue to be treated as expense and normalized using a five-year average (Niemeier Rebuttal, p. 4:1-23). Staff relied on the Missouri State Code of Regulation (CSR) for guidance in this treatment (Niemeier Rebuttal, p. 4:4-23). The appropriate amount of tank painting expense is \$1,799,919. (Niemeier Direct, p. 10:22-p. 11:3). Based on the new tank painting data provided in

updated response to Staff DR No. 0137 by MAWC on January 30, 2023, Staff plans to true-up tank painting expense using the five-year average for the five 12-month periods ending December 31, 2022.

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

Staff's Position: The appropriate amount of hydrant painting is \$95,859. Staff determined this level by using a two-year average on data ending June 30, 2022. (Niemeier Direct p. 7:15-p. 9:11)

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

Staff's Position: The appropriate amount of building maintenance is \$1,360,711 (Surrebuttal Accounting Schedule 9). Staff determined this level by using a three-year average on data ending June 30, 2022. (Niemeier Rebuttal: p. 1:21-p. 2:17)

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

Staff's Position: The appropriate amount of main break expense is \$3,575,046. Staff determined this level by applying a three-year average on data ending June 30, 2022, to determine the average cost per main break incident. Staff multiplied that average cost of main break by the average number of main breaks. (Niemeier Direct, p. 8:12-23)

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

Staff's Position: The appropriate amount of maintenance supplies and services expense, other than main break, hydrant painting, and tank painting expense, is \$3,149,538. Staff determined this level by using a two-year average on data ending June 30, 2022. (Niemeier Direct, p. 10:15-22)

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

Staff's Position: The appropriate amount of chemical expense to include in MAWC's cost of service is \$13,781,703. (Surrebuttal Accounting Schedule 9)

Staff based normalized chemical expense for each district on multiple factors. Staff annualized the level of chemical expense by using the current price for each type of chemical, as of June 30, 2022. Staff reviewed five years of data (ending June 30, 2022), if available, of chemical usage in the water treatment process to determine if the usage

fluctuated upward or downward from year-to-year. If the usage showed a discernable upward or downward trend in the year-to-year level of review, then Staff used data from the twelve months ending June 30, 2022. If the trend was not discernable, then Staff used a five-year average. Staff applied the normalized chemical expense to the five-year average for system delivery to calculate the annualized level of chemical expense for each district for every 1,000 gallons of water. Staff based an adjusted system delivery factor on system delivery after annualized water loss. Staff used a five-year average of system delivery for all districts to normalize the water loss percentage. Staff applied this water loss percentage to the normalized level of system delivery to calculate chemical costs. Staff determined an actual system delivery based on the water loss percentage and Staff's annualized revenue usage. (Sarver Direct, p 11)

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

Staff's Position: The appropriate amount of fuel and power expense is \$12,933,066. (Surrebuttal Accounting Schedule 9)

For water, Staff annualized the fuel and power expense for each district based on the test year expenses. The annualized amount was adjusted for any price changes that took effect during the test year. Staff then developed a rate for fuel and power cost per 1,000 gallons of water for each district. This was calculated by taking the five-year system delivery divided by the annualized expense. Staff divided the annualized water usage (calculated by Staff for revenues) by the water loss percentage discussed above under System Delivery. The result (quotient) is Staff's adjustment to system delivery for fuel and power expense. Staff's annualized expense for fuel and power expense is the cost per 1,000 gallons of water multiplied by the adjustment for system delivery. (Sarver Direct p 12)

For sewer, Staff's annualized expense is based on the actual data from the test year for the twelve months ending June 30, 2022. (Sarver Direct p. 12)

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

Staff's Position: Staff annualized office supply and services expense and used trend analysis to reflect the test year on accounts with steady trends and a three-year average on accounts with no consistent trend. The three year average for these accounts within the uniforms classification would better reflect an ongoing level of expense. The appropriate amount of office supply and services expense is \$777,201 and an adjustment to the test year expense of (\$10,877). (Branson Surrebuttal, p. 2-4)

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

Staff's Position: In Staff's direct testimony, Staff inadvertently removed \$225,609 for items MAWC previously designated as promotional items. These items were addressed in different areas of the audit. Staff has since included this amount in its cost of service. (Branson Surrebuttal, p. 4)

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

Staff's Position: Staff annualized the PSC assessment expense to reflect the average of the assessments of the last three State fiscal years: 2021, 2022, and 2023, which results in the appropriate amount of PSC assessment expense totaling \$2,462,191. (Branson Surrebuttal, p. 2)

Thursday, March 9

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

Staff's Position: Affiliates of MAWC should not receive preferential treatment. Rather, the affiliate should be treated as a third-party vendor who supply services to the utility. Therefore, the appropriate expense lag for support services is 40.1. (Niemeier, Surrebuttal: p. 3-4)

Regulated utility companies routinely pay quarterly estimated taxes. Therefore, the appropriate expense lag for federal income taxes and state income taxes is 35.6. (Niemeier Surrebuttal, p. 4:7-20)

Leases (Rents and Transportation):

Should non-renewed leases be removed from MAWC's cost of service?

Staff's Position: Yes. Non-renewed leases should be removed from MAWC's cost of service as they will not reflect an ongoing expense to MAWC. MAWC also removed non-renewed leases in their workpaper.

What is the appropriate amount of transportation lease expense to include in MAWC's cost of service?

Staff's Position: The appropriate amount of transportation expense is \$3,718,518. Staff adopted test year expense, with the exception of fuel account 55010200. For that account, Staff used an average of gasoline prices during test year multiplied by the number of gallons used during test year to arrive at an annualized amount of \$2,285,376 for the fuel account portion. (Niemeier Direct, p. 15:8-22).

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

Staff's Position: Waste disposal expense included snow removal and porta-potty costs, which Staff removed from waste disposal and added to the appropriate building maintenance expense account, where these costs should have been recorded. (Niemeier Direct, p 16:19-p17:2). The appropriate amount of waste disposal expense is test year minus the building maintenance expenses or \$3,979,114. (Niemeier Direct, p. 17:5-8)

Telecommunications Expense: What is the appropriate amount of telecommunications expense to include in MAWC's cost of service?

Staff's Position: The appropriate amount of telecommunications expense is the test year amount of \$1,270,375. (Niemeier Direct, p. 16:2-13).

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

Staff's Position: Staff used a five-year average of billed usage for all service areas, except the purchased water that serves Parkville, Lawson (2 systems), Hickory Hills, and Orrick. Staff used a 4-year average for Parkville. For Lawson, Staff used a 3-year average for one system and a 19-month average for the other. Staff used a 17-month average for Hickory Hills, and a 4-month average for Orrick. For all the districts, Staff applied the most recent rates to the normalized usage. (Sarver Direct p. 13-14) The appropriate amount of purchased water expense is \$1,564,876. (Sarver Rebuttal p. 7)

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

Staff Position: Staff has calculated the following water loss levels: St. Louis County is 25.06% and 19.79%. Staff used a historical comparison of actual sales to system delivery data provided by MAWC to calculate a five-year average for system delivery ending June 30, 2022, for each district, to normalize the water loss percentage based on fluctuations determined within the five years analyzed. Staff applied this water loss percentage to the normalized level of system delivery to calculate chemical, fuel, and power expense. (Sarver Direct, p. 10-11)

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

Staff's Position: The appropriate amount of dues and donations expense to include in MAWC's cost of service is \$282,004. (Lesmes Surrebuttal workpaper)

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

Staff's Position: The appropriate amount of penalties expense to include in MAWC's cost of service is \$0. Staff performed a review of penalties expense, however, MAWC did not seek recovery of penalties expense and there was no balance in its corresponding GL account for the test year ending June 30, 2022. (Lesmes Direct, p. 5).

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

Staff's Position: The appropriate amount of postage expense to include in MAWC's cost of service is \$2,170,484. (Lesmes Rebuttal, p. 4)

Other Rate Base Items:

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

Staff's Position: The appropriate amount of materials and supplies to include in MAWC's cost of service is \$10,456,679. (Surrebuttal Accounting Schedule 2)

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

Staff's Position: The appropriate amount of customer advances to include in MAWC's cost of service is \$800,905. (Surrebuttal Accounting Schedule 2)

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

Staff's Position: The appropriate amount of prepayments to include in MAWC's cost of services is \$1,821,004. (Surrebuttal Accounting Schedule 2)

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

Staff's Position: Yes. Staff has observed that MAWC's call center metrics indicate that significant performance issues have occurred since July 2020, particularly the average amount of time callers wait to be connected with a Customer Care Agent (CCA) and the percentage of calls that are abandoned before reaching a CCA. Although the Company has shown some improvement in the last few months, it has been two and a half years since these issues first emerged and they have yet to be fully resolved. Staff recommends that MAWC perform an independent audit of its call center operations in order to identify the root causes of this poor performance and find actionable solutions. (Thomason Direct, p. 12: 12-18)

Friday, March 10

Revenues:

What is the appropriate number of residential meters to use for calculating the minimum charge to include in revenues?

Staff's Position: Staff developed the minimum charge revenue by first multiplying the number of meters and units as of June 30, 2022, for each meter class by the applicable minimum charge as approved in Case No. WR-2020-0344, MAWC's last general rate proceeding. (Sarver Direct, p. 14)

For water residential revenues, the June 30, 2022, meter count for St. Louis is 295,363 for monthly billed customers and 23,056 for quarterly billed customers, all other is 113,274, flat rate is 263, and Mexico is 4,342. For sewer residential revenues, the June 30, 2022 unit count for Arnold is 8,441 and all other sewer is 11,376. (Robertson Direct workpapers)

What is the appropriate amount of Other Operating, Miscellaneous, and Unbilled revenues?

Staff's Position: It is necessary for Staff to remove unbilled revenues to reach an accurate revenue requirement based upon water sales billed to, and revenues collected from, Missouri ratepayers. (Sarver Direct p 16) The appropriate amount for miscellaneous and unbilled revenues is \$0. (Surrebuttal Accounting Schedule 9)

Staff reviewed the totals for each of these revenue categories, by account, for the most recent five-year period, by district. If the totals showed a discernable upward or downward trend in the year-to-year level of review, then Staff used the twelve months ending June 30, 2022 data. For rent, Staff based the totals on MAWC's response to DR No. 0175. MAWC provided the totals from rent based on contacts/agreements in effect as of June 30, 2022. (Sarver Direct, p. 15) The appropriate amount for other operating revenue is \$5,495,492. (Surrebuttal Accounting Schedule 9)

Meter Charge Consolidation: What meter charges should be used?

Staff's Position: Staff does not support MAWC's proposal at this time. MAWC has not stated if it will replace all of the 5 5/8-inch meters with 3/4-inch meters, or vice versa. Over time the replacement of 5/8-inch meters with 3/4-inch meters will cost customers approximately an additional \$16,325,400 in meter costs alone. This would be a significant additional investment, and does not appear to be justified based upon the information presented by MAWC to date. This does not include costs related to installation and the return of and return on rate base. (Roth Rebuttal, p. 4:4-12)

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

Staff's Position: Staff recommends that the Commission maintain the current two (2) district approach that it approved in MAWC's most recent rate case, Case No. WR-2020-0344. The two districts are the St. Louis County service area and the All Other MO service area. (Roth, Direct, p. 10:5-7)

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

Staff's Position: The appropriate method is to utilize actual data over a five year period in order to calculate a normalized level of residential customer usage for the period of July 2017 through June 2022. In certain service territories (profit centers) where five years of data does not exist, an average of the available data should be used. Averaging the data over the most recent five-year period represents reliable data and provides evidence of recent trends in customer usage. (Robertson Direct, p. 5-6)

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

Staff's Position: The appropriate method is to utilize actual data over a five year period in order to calculate a normalized level of residential customer usage for the period of July 2017 through June 2022. In certain service territories (profit centers) where five years of data does not exist, an average of the available data should be used. Averaging the data over the most recent five-year period represents reliable data and provides evidence of recent trends in customer usage. (Robertson Rebuttal p.7)

Revenues – Customer Commodity:

What are the appropriate usage revenues for water rates A, J, resale, and private fire? What are the appropriate usage revenues for sewer rates for residential, commercial, industrial, and OPA customers?

Staff's Position: The appropriate usage revenues for water rate A, J, resale, and private fire is \$86,093,155. The appropriate usage revenues for sewer rates for residential, commercial, industrial and OPA customers is \$33,589. For the water and sewer usage, Staff reviewed five years of usage data, from July 1, 2017, through June 30, 2022, to determine if a usage trend existed. Staff then multiplied its normalized usage total, or consumption, by the applicable tariff rate per 1,000 gallons for each district to determine the normalized revenues. (Horton Direct, p. 12-15)

Class Cost of Service Studies and Rate Design:

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

Staff's Position: Staff recommends that the Commission approve the allocation factors utilized in 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 the past MAWC rate cases by both Staff and MAWC. (Roth Direct, p. 3:22-23 and p. 4:1-3).

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 (Roth Direct, p. 4:4-11)

The revenues associated with the special contracts is embedded in the revenues for the respective classes in Staff's CCOS's. The special contracts for the two industrial customers are embedded in the industrial customer revenues, and the special contracts for the three sale for resale customers are embedded in the sale for resale customer revenues in the CCOS studies (Roth Surrebuttal, p. 2:9-12).

WHEREFORE, Staff submits this *Staff's Statements of Positions*, for the Commission's consideration and information.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been electronically mailed to all parties and/or counsel of record on this 21st day of February, 2023.

/s/ Karen E. Bretz