

MEMORANDUM

TO: Missouri Public Service Commission
Official Case File, Case No. WO-2023-0193
Missouri American Water Company

FROM: Keri Roth – Water, Sewer & Steam Department
Daronn A. Williams – Water, Sewer & Steam Department

<u>/s/ Keri Roth</u>	<u>04/27/2023</u>	<u>/s/ Scott Stacey</u>	<u>04/27/2023</u>
Senior Research/Data Analyst	Date	Staff Counsel’s Office	Date

SUBJECT: Staff Recommendation for the Commission Approval of the Agreement to Sell and Deliver Water for Resale

DATE: April 27, 2023

Case Background

On December 12, 2022, Missouri-American Water Company (“MAWC” or “Company”) filed its *Application for the Approval of Agreement and Tariff and Motion for Waiver* (“Application”), in which it seeks approval of an Agreement to Sell and Deliver Water for Resale (“Agreement”) between MAWC and the City of O’Fallon, Missouri (“O’Fallon” or “City”). MAWC and O’Fallon are collectively referred to as “Parties” hereafter. The Company included a copy of the Agreement and a proposed tariff sheet P.S.C MO No. 13, 2nd Revised Sheet No. RT 24, Cancelling 1st Revised Sheet No. RT 24 (“Tariff Sheet”), as Appendices A and B, respectively. MAWC currently provides water service to approximately 474,000 customers in several counties throughout Missouri. MAWC also provides sewer service to approximately 16,500 customers in several counties throughout Missouri.

O’Fallon has requested to purchase water from MAWC at wholesale to sell and deliver for resale in order to supplement the City’s water supply. The City is not subject to the jurisdiction of the Commission. The Agreement entered into between the Parties provides for an agreed-upon delivery of water from MAWC to the City from one point of delivery for an initial term of ten years. Upon expiration of the initial ten year period, the Agreement will automatically renew on a year by year basis. The agreed-to commodity charge is fixed for the entire span of the Agreement.

On December 13, 2022, the Commission issued its *Order Directing Notice and Setting Intervention Deadline*, which set January 9, 2023, as the date by which interested parties could intervene in this case. On January 6, 2023, the City of O’Fallon filed an *Application to Intervene* stating, among other things, that the City supports MAWC’s Application. On January 27, 2023, the Commission issued its *Order Granting Application to Intervene and Order Directing Filing*. The Commission ordered Staff to file its Recommendation no later than February 28, 2023. Staff

** Denotes Confidential Information **

filed a *Status Report* requesting an extension to file its Recommendation no later than April 14, 2023, which the Commission granted. On April 13, 2023, Staff requested an extension due to Staff waiting on additional information from MAWC. The Commission granted Staff's request and ordered Staff to file its recommendation no later than April 28, 2023.

Staff's Review of the Application

Staff has reviewed a copy of the Application and its appendices, including Appendix A, which included the City's Resolution No 08 11 2022A ("Resolution"), approving the Agreement on behalf of O'Fallon's City Council and the O'Fallon Mayor. The Agreement was also included as part of Appendix A and was reviewed by Staff.

The City will purchase water from MAWC via a connection that will be made on Belleau Creek Road. A meter vault will be installed south of the intersection of Belleau Creek Road and Veterans Memorial Parkway. Per MAWC's response to Data Request ("DR") 0001, the water source for the connection on Belleau Creek Road will be MAWC's Central Plant, located at 901 Hog Hollow Road, Chesterfield, Missouri. The Central Plant receives its water from the Missouri River.

MAWC's responses to DRs 0002, 0003 and 0004, identified the plant's maximum daily output for 2022 was 166.5 million gallons per day ("MGD"), the average daily output for 2022 was 93.9 MGD and the maximum capacity of the Central Plant is 217 MGD. The Agreement states that O'Fallon agrees to purchase an average of 400,000 gallons of water per day. However, failure to receive less than an average of 400,000 gallons per day will not be deemed as a breach of the agreement. O'Fallon anticipates using a maximum of 1.5 MGD, but the total volume may be exceeded or increased provided both MAWC and O'Fallon mutually agree in writing. Staff does not have any concerns with the MAWC plant meeting O'Fallon's needs. MAWC can safely and adequately supply water to O'Fallon, in addition to supplying its existing customers, without exceeding the current capacity of the water plant.

MAWC currently has two other customers that have special contract rates for the large volume of water utilized at their specified locations. Additionally, MAWC currently has three other customers with special contract rates for the large volume of water purchased from MAWC and re-sold to customers at the respective systems.

MAWC used total operating expenses for the Central Plant to determine the cost of the net marginal cost of water production. In a workpaper provided by MAWC on April 25, 2023, the total operating expenses include: fuel and power, chemicals, employee related expenses which include salaries and wages, pensions, group insurances, and other benefits, contracted services, building maintenance, telecommunication, postage, printing, and stationary expense, office supplies, miscellaneous expenses, rents, transportation, insurance other than group, maintenance service and supplies, and general tax. Staff does not disagree with MAWC including these accounts to be used in calculating the net marginal cost of water production. The Company stated in its response to DR 0006 that the net marginal cost of water production at the Central Plant is

** [REDACTED] **. The net marginal cost of water production is significantly lower than the commodity rate set out in the Agreement of ** [REDACTED] **. Per the same e-mail mentioned above, the difference between the commodity charge and the operating cost covers the depreciation, property tax, and pre-tax return for the investment needed to provide O'Fallon with the quantity of water they have requested.

These additional revenues collected by the Company will reduce the amount of monies required to be collected in a future rate proceeding from the other customers served by the Central Plant. This contract will therefore help to offset some costs for other customers, and will not raise other customer rates.

STAFF'S CONCLUSION AND RECOMMENDATION

Staff determines that the Agreement entered into between MAWC and the City is in the public interest. Staff recommends that the Commission approve the Agreement and Tariff Sheet as filed with MAWC's Application.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI


In the Matter of the Application of)
Missouri-American Water Company for)
the approval of an Agreement with the) Case No. WO-2023-0193
City of O’Fallon, Missouri to sell and)
Deliver Water for Resale and a Related)
Tariff Sheet)
)

AFFIDAVIT OF KERI ROTH

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW KERI ROTH, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation, in Memorandum Form*; and that the same is true and correct according to her best knowledge and belief.

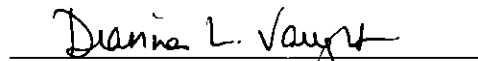
Further the Affiant sayeth not.


KERI ROTH

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 27th day of April, 2023.

DIANNA L VAUGHT
Notary Public - Notary Seal
STATE OF MISSOURI
Cole County
My Commission Expires July 18, 2023
Commission #: 15207377


Notary Public

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)

AFFIDAVIT OF DARONN A. WILLIAMS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW DARONN A. WILLIAMS, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation, in Memorandum Form*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Daronn A. Williams

DARONN A. WILLIAMS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 27th day of April, 2023.

DIANNA L VAUGHT
Notary Public - Notary Seal
STATE OF MISSOURI
Cole County
My Commission Expires July 18, 2023
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Dianna L. Vaught

Notary Public