# BEFORE THE PUBLIC SERVICE COMMISSION
# STATE OF MISSOURI

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| In the Matter of Missouri-American Water<br>Company's Request for Authority to Implement<br>General Rate Increase for Water and Sewer<br>Service Provided in Missouri Service Areas. | )<br>)<br>)<br>) | **Case No. WR-2017-0285** |

## STATEMENT OF POSITIONS: ALL ISSUES

**COMES NOW** the Staff of the Missouri Public Service Commission (Staff), by and through counsel, and provides below its *Statement of Positions: All Issues*. On February 20, 2018, Staff filed its *Statement of Positions for Days One and Two of Hearing.* As directed by Commission order, Staff now files its Statement of Positions on all remaining issues in the case. For convenience, Staff has included issues anticipated for the first two days of hearing.

## Staff Positions

### Monday, February 27

**Future Test Year – What is the appropriate test year for purposes of determining MAWC's cost of service in this case**

Staff Position:

A historical test year of the 12 months ending December 31, 2016, updated through June 30, 2017, and with a true-up period ending December 31, 2017 should be used to determine MAWC's cost of service in this case. (Staff Cost of Service Report; p. 3–11; Oligschlaeger Rebuttal, p. 2–30; Oligschlaeger Surrebuttal, pages 1 – 8.)

### Tuesday, February 27

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

Staff Position:

The appropriate method for allocating MAWC corporate costs to the water and sewer districts is to use the same allocation factors used by both parties in the last rate case (WR-2015-0301). (Staff Cost of Service Report, p. 57-58.) These allocation factors were the result of several meetings between Staff and MAWC employees to help MAWC determine the allocation factors to assign to specific accounts for allocating corporate costs according to cost causers, which were subsequently reflected in the Company's WR-2015-0301 rate case filing. (Foster Surrebuttal, p. 4:10-17.)

**Production Costs – Waste Disposal – What is the appropriate amount of waste disposal expense to recover in rates?**

Staff Position:

Staff normalized actual expenses that occurred in the 18 month test year and update period in the amount of $2,411,043. Staff's adjustment recognizes the actual costs that occurred in the test year and eliminates the under-accrual. Staff will continue to evaluate this issue as part of its true-up audit. (Staff Cost of Service Report, p. 78-79.)

**Property Tax – What is the appropriate amount of property tax to recover in rates?**

Staff Position:

The appropriate amount of property taxes to recover in rates is $14,208,628. Staff calculated this amount based on the actual dollars spent by the company for the test year. Staff will review the property taxes for 2017 and any known material changes from the taxing authorities in the true-up audit. (Staff Cost of Service Report, p. 81.)

**Cloud Computing** –

**a. Should expenses associated with Cloud Computing be booked in USOA account 303 or USOA account 930.2?**

Staff Position:

The expenses associated with Cloud Computing should be booked in USOA Account 930.2. Staff believes this approach would follow Accounting Standards Update (ASU) No. 2015-05 Subtopic 350-40. (Bolin Rebuttal, p. 2-4.)

**b. Should the capital costs associated with Cloud Computing be booked in USOA account 303 or USOA account 391.25?**

Staff Position:

Capital costs associated with Cloud Computing should be booked in USOA account 391.255. (Bolin Rebuttal, p.2-4.)

**Wednesday, February 28**

**Rate Base**

**a. Depreciation Reserve –**

**i. What treatment, if any, should the Commission order regarding the net negative depreciation reserve balances?**

Staff Position:

The Commission should order MAWC to complete in external audit of negative depreciation reserves as requested in by the Office of the Public Counsel (Robinett Rebuttal, p. 8). The Commission should order MAWC to complete this audit before submitting its next depreciation study and incorporate the findings and recommendation of that audit along with MAWC's responses and proposals into that depreciation study. Staff further recommends that the Commission order MAWC to address the transition from AMR to AMI, its potential effects on depreciation reserves and MAWC's proposals to address those effects as part of its next depreciation study (Patterson Surrebuttal, p. 2-3).

**b. Jaxson Estates – What is the appropriate amount of plant and CIAC balances to include in rate base?**

Staff Position:

The appropriate amount of plant and CIAC balances to include in rate base should net to zero. (Staff Cost of Service Report, p. 49.) Since the plant was fully contributed, CIAC and CIAC reserve balances should match the plant in service and depreciation reserve balances. (McMellen Surrebuttal, p. 9:15-18.)

**c. Hickory Hills – Should the unamortized amount of the Hickory Hills acquisition be included in rate base?**

Staff Position:

The unamortized amount of the Hickory Hills acquisition should not be included in rate base. The unamortized balance is not capital in nature, not associated with costs amortized over a long period of time, and is not significant to MAWC. (McMellen Rebuttal, p. 6:18-22.)

**d. Woodland Manor – Should the unamortized amount of the Woodland Manor acquisition be included in rate base?**

<u>Staff Position</u>:

*Staff considers adjustments to rate base involving Woodland Manor as True-Up items.*

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

<u>Staff Position</u>:

The unamortized amount of the costs of the Emerald Pointe pipeline should not be included in rate base. Since amounts associated with the assets acquired are not owned or maintained by MAWC, it is inappropriate to include these assets in rate base. (McMellen Rebuttal, p. 4:18-22.)

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

<u>Staff Position</u>:

The appropriate treatment of the AFUDC regulatory amortization is to exclude these amounts from rate base. MAWC has not shown why these amortizations are appropriate. (McMellen Surrebuttal, p. 14:20-22.)

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

<u>Staff Position</u>:

MAWC should capitalize a portion of depreciation expense on tools and equipment used partly on capital projects to prevent double recovery. (Staff Cost of Service Report, p. 63-64.) During the year, some tools and equipment are used for both capital projects and operation and maintenance projects. A portion of depreciation expense related to the capital projects should be capitalized and deducted from expense. (McMellen Surrebuttal, p. 11.)

**h. Cash Working Capital –**

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

Staff Position:

Staff has applied the same 56.74 day lag used for "miscellaneous cash vouchers" to Service Company expenses. Staff takes issue with the Service Company requiring prepayment from MAWC of invoices paid to the Service Company. Staff disagrees with MAWC's request for a negative expense lag to be reflected in its CWC allowance for Service Company expenses, as it would result in MAWC's customer paying a higher return on rate base than would be required under normal billing practices. (Staff Cost of Service Report, p. 53.)

**ii. Should the revenue lag be adjusted to account for the move from quarterly to monthly billing in St. Louis County?**

Staff Position:

No. Two separate CWC analyses should be employed due to the fact that St. Louis County utilized quarterly billing while all other districts utilize monthly billing. (Staff Cost of Service Report, p. 52.) According to MAWC's response to Data Request #0262 on January 25, 2018, "The Company has not switched any St. Louis County customers from quarterly to monthly billing." For this reason, Staff is not adjusting the revenue lag to account for the move from quarterly to monthly billing in St. Louis County.

**Thursday, March 1**

**Rate of Return**

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

Staff Position:

The appropriate return on common equity to be used to determine the rate of return is 9.25%. (Staff Cost of Service Report, p. 15.)

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

Staff Position:

The appropriate capital structure to be used to determine the rate of return consists of 43.99% common equity, 51.02% long-term debt, 4.91% short-term debt, and 0.09% preferred stock. (Staff Cost of Service Report, p. 35.)

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

Staff Position:

The debt/preferred stock rates/costs that should be used to determine the rate of return are 5.35% for long-term debt, 0.99% for short-term debt, and 8.67% for preferred stock. (Staff Cost of Service Report, p. 15.)

**Hydrant Painting – What is the appropriate amount of hydrant painting expense to be included in the cost of service calculation?**

Staff Position:

The appropriate amount of hydrant painting expense to include in the cost of service is the test year amount, as Staff did not propose an adjustment for this issue. However, Staff has agreed to review this expense as a true-up item for any significant changes in hydrant painting expense that may have occurred within the true-up period ending December 31, 2017. (Foster Surrebuttal, p. 2:15-17.)

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

Staff Position:

The appropriate amount of tank painting expense to include in cost of service is $1,462,518. (Sarver Surrebuttal, p. 5.) Staff used an average of actual amounts from the previous five years ending June 30, 2017, for tank painting expense. (Sarver

Surrebuttal, p. 4.)

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

Staff Position:

The appropriate amount of main break expense to include in the cost of service is $1,864,642 for the St. Louis district. Staff calculated this amount as a three-year average through the end of the test year period, utilizing normalized numbers for the three months in 2014 affected by the Polar Vortex. (Staff Cost of Service Report, p. 69-70.) However, Staff has agreed with MAWC's alternative proposal to true-up the main break expense using a three-year average ending December 31, 2017, which is the end of the true-up period. (Foster Surrebuttal, p. 3:13-16.)

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

Staff Position:

The test year amount of $6,335,792 is the appropriate amount of Maintenance Expense other than main break expense and tank painting expense that should be included in the cost of service. (Staff Cost of Service Report schedules.)

**Other Miscellaneous Expenses – For each of the following topics, what is the appropriate amount of related expenses that should be included in the cost of service calculation?**

**a. Advertising Expenses**

Staff Position:

Staff reviewed all advertisements that the Company provided and classified them using the five categories outlined by the Commission in case no EO-85-185. Staff calculated the total advertising expense as $43,423. Staff recommends excluding the costs of institutional and promotional advertising, as well as costs for which the Company has provided no associated advertisements for review. (Staff Cost of Service Report, p. 78:4-8.)

**b. Postage**

Staff Position:

The appropriate amount of postage expense to include in cost of service is $1,264,738. (Staff Cost of Service Report, p. 79.) Staff calculated this amount based on quarterly billing instead of monthly billing, since staff did not receive supporting documentation from the Company. (Arabian Rebuttal, p. 2, lines 7-8.)

**c. Management Expense Charges**

Staff Position:

*Staff made no adjustments to this item.*

**Friday, March 2**

**Depreciation Expense**

**a. Business Transformation (BT) Depreciation Rate – What is the appropriate depreciation rate for the amounts booked in account No. 391.4 BT Initial Investment?**

Staff Position:

The appropriate depreciation rate for Account No. 391.4 BT Initial Investment is 5 percent. (Staff Cost of Service Report, p. 63.) The appropriate depreciation rates for water are those in Schedule KBP-d1 (Patterson COS, Appendix 3) and for sewer are those in Schedule KBP-s1 (Patterson Surrebuttal). MAWC's request for a change is based solely on the anticipated termination of mainstream maintenance for the BT system (LaGrand Direct, p. 29), but does not consider available alternative maintenance, planning for providing a replacement system, or the effect of current depreciation reserves on the appropriate depreciation rate. (Patterson Rebuttal, p. 2-4.)

**b. Depreciation Rate Change for Sewer Leasehold equipment – Should the Commission order a change in depreciation rate for sewer leasehold equipment?**

Staff Position:

Yes, the Commission should order a deprecation rate of 5 percent for Account No. 390.9 Structures and Improvements Leasehold (Patterson Surrebuttal, p. 1-2). The appropriate depreciation rates for sewer accounts are those in Schedule KBP-s1. (Patterson Surrebuttal.)

**Insurance Other than Group – Should the cost of a Directors and Officers Liability policy be included in the cost of service calculation?**

Staff Position:

Ratepayers should not pay for costs associated with litigation or fines and penalties in the form of an insurance premium for MAWC board members who may become involved in civil or criminal litigation. Staff contends that if the American Water Works Company, Inc. (AWWC) or MAWC Board of Directors abides by the regulations of the Sarbanes-Oxley Act (SOX) and the U.S. Securities and Exchange Commission (SEC) and is competent in the performance of its duties, then there is no need for this type of insurance. (Newkirk Surrebuttal, p. 4-5.)

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

Staff Position:

The appropriate amount of uncollectible expense to include in cost of service is $2,868,911. Staff calculated this amount based on the actual write-offs for each MAWC's districts by using the amount of new write-offs for the twelve months ending June 30, 2017. (Staff Cost of Service Report, p. 80.)

**Coordination with local Municipalities for Water Main Replacement – Should MAWC's five year main replacement program approved by the Missouri Department of Natural Resources (its Owner Supervised Program) prioritize the replacement of small dimension mains in Jefferson City and other municipalities that are connected to fire hydrants?**

Staff Position:

Staff has not taken a position on this issue. However, Staff would be willing to participate in any discussions with MAWC and local municipalities.

a. **Should MAWC be directed to provide on a regular basis the following described information to appropriate Jefferson City and other municipalities' departments:**
    i. **MAWC's annual or multi-year capital expenditure or improvement plan for the Jefferson City and other municipality service areas, and any updates made to those plans**
    ii. **Leak studies of the water system in the Jefferson City and other municipality service areas;**
    iii. **The current pressure and volume model for the water system in the Jefferson City and other municipality service areas and the age of all facilities.**
    iv. **The current and subsequent versions of MAWC's Resource Supervised Plan.**

<u>Staff Position</u>:

Staff has not taken a position on these items. However, Staff would be willing to participate in any discussions with MAWC and local municipalities.

**Water Rate Design Issue: Private Fire Service Rates – What is the appropriate private fire service rate?**

<u>Staff Position</u>:

The appropriate private fire service rates should be developed based on Staff's Class Cost of Service Report filed on December 13, 2017, and as updated through the rate case. (Staff's Report on Class Cost of Service and Rate Design, Schedule 1.)

**Cedar City / Jefferson City Airport and Fire Protection – Is the proposed pressure valve replacement at the wholesale point of supply for the water system serving the Jefferson City Airport adequate to resolve water pressure losses or fluctuations in that system?**

<u>Staff Position</u>:

Staff has not taken a position on this issue.

**<u>Monday, March 5</u>**

**Affiliate Transactions – Should the Commission order the opening a rulemaking docket to establish affiliate transaction rules for large water utilities?**

<u>Staff Position</u>:

Yes, the Commission should order the opening of a rulemaking docket to establish affiliate transaction rules for large water utilities. (Bolin Rebuttal, p. 4-5.)

**System Delivery** –

**a. What is an acceptable level of water loss for the MAWC systems?**

Staff Position:

Staff has calculated the following water loss levels: District 1 is 21.64%, District 2 is 16.56% and for District 3 20.43%. (Staff Cost of Service Report schedules.)

However, any adjustment to water loss, whether based on some particular level or based on trending, should be determined by studying the actual loss itself in gallons per year, taking into consideration changes to the water system such as distribution pipe length. Loss expressed as a percentage of system delivery should not be used, because system delivery varies year-to-year and is different for each individual water system, and such a percentage does not accurately reflect loss. Loss studies and adjustments should apply for individual water systems, and not one study/adjustment be applied to all of MAWC's water systems collectively. (Merciel Surrebuttal, p.1-6.)

**b. What is the appropriate water loss to apply to chemicals, and fuel and power expense?**

Staff Position:

Staff included a 5-year average for water loss. This is the same percentage used to account for the water loss for chemicals. (Sarver Rebuttal, p. 5.)

**Lead Service Line Replacement (LSLR)** –

**a. LSLR Activity – Should MAWC continue to replace the customer-owned portion of lead service lines (LSL) while performing water main repair and replacement?**

  **i.** Should the Company prioritize at risk populations?

  **ii.** Should the Company be required to disclose known lead service line and when should that notification take place?

  **iii.** Should the Company be required to have a written plan about its LSL replacement program?

  **iv.** Should the Company be required to provide test kits and what testing parameters should be in place including whether the results should be disclosed to the public?

v. Should the Company be required to do a cost-benefit analysis?
vi. Should the Company be required to comply with OSHA lead standards?
vii. Should the Company be required to have a plan for how they will address excess costs related to unusual site restoration work?
viii. Should the Company be coordinating activity with other pertinent entities?
ix. Should the Company be required to remove all lead service lines including vacant properties or inactive accounts?
x. Should the Company also be replacing worn out customer-owned service lines, copper service lines, and/or galvanized pipes?
xi. How should costs be allocated?

Staff Position:

Yes, MAWC should continue to replace customer-owned LSL while performing water main repair and replacements. The reasons pertain to the risk of lead contamination associated with partial lead service line replacement. (Merciel Rebuttal, p. 2:1-6:10.) The sub-issues were proposed after filing surrebuttal, and Staff has not filed testimony providing specific answers to those questions. However, to the extent those questions are to be treated as a part of OPC's proposed pilot program, Staff is opposed to the pilot program. (Merciel Rebuttal, p. 2:20-4:2.)

**b. Pilot Program – Should the Commission order the implementation of OPC proposed LSL pilot program?**

Staff Position:

No, OPC's pilot program should not be implemented as stated by OPC because it would limit or cease current LSL replacement activity, and it may be overreaching from a management perspective. (Merciel Rebuttal, p. 2:20-4:2.)

**c. LSLR AAO Treatment – What recovery approach, if prudent, should be adopted for the AAO amount from WU-2017-0296?**

Staff Position:

The recovery approach adopted for the LSLR AAO should be the unamortized balance of $1,071,559 be included in rate base and amortized over ten years. (McMellen Rebuttal, p. 3:10-13.) These are costs associated with property MAWC will neither own or maintain and should therefore continue to be recorded in NARUC account 186. (McMellen Surrebuttal, p. 2:13-22.)

**d. Future LSLR Recovery – What should the Commission authorize in this case for the recovery of future LSLR activity?**

Staff Position:

The Commission should authorize MAWC to record any future LSLR activity with the same accounting treatment as stated above and approved in the Report and Order in Case No. WU-2017-0296. (McMellen Rebuttal, p. 3:16-22.)

**Tax Cut and Job Act of 2017**

**a. Corporate Tax Rate Adjustment – Should the Commission reduce the federal corporate income tax rate reflected in MAWC's cost of service from 35% to 21%?**

Staff Position:

Yes. Staff will present its quantification of the federal corporate income tax rate reduction as part of its true-up audit filings. (Oligschlaeger Rebuttal, p. 30–31; Oligschlaeger Surrebuttal, p. 8–10.)

**b. ADIT Going Forward Treatment – How should the Commission address the portion of current ADIT balances that are overstated on account of the federal income tax reduction?**

Staff Position:

If the cost of service impact of this item can be reasonably quantified within this case, a flow back of excess ADIT should be incorporated into MAWC's cost of service through an amortization. Whether an amount for this item is included in MAWC's cost of service in this case or not, MAWC should defer the differences between the amount of excess ADIT amortization included in MAWC's rates in this case and the actual amount of excess ADIT amortization reflected in MAWC's financial statements for potential reflection in MAWC's cost of service in its next general rate proceeding. Staff will present its final position on this issue as part of its true-up audit filings. (Oligschlaeger Rebuttal, pages 30 – 31; Oligschlaeger Surrebuttal, pages 8 – 10.)

**c. Other TCJA Impacts – How should the Commission treat any other cost of service impacts arising from the TCJA besides the federal corporate tax rate reduction and excess ADIT amounts?**

Staff Position:

All other TCJA impacts should be deferred by MAWC for potential reflection in cost of service in its next general rate proceeding. (Oligschlaeger Rebuttal, p. 30–31; Oligschlaeger Surrebuttal, p. 8–10.)

**d. Are there other items that should be deferred and considered as part of TCJA implementation?**

Staff Position:

No. The passage of the TCJA should be considered to be an "extraordinary event," and no ongoing cost of service changes should be used to offset any deferral of TCJA financial impacts. (Oligschlaeger Rebuttal, p. 30–31; Oligschlaeger Surrebuttal, p. 8–10.)

**Tuesday, March 6**

**Payroll**

**a. Number of Employees – What is the appropriate number of MAWC employees to include when setting rates?**

Staff Position:

Staff agrees to update the number of actual filled positions as of December 31, 2017, during true-up. Staff agrees to further evaluate the inclusion of the two additional full time equivalent (FTE) employees who had not yet begun work as of December 31, 2017. (Newkirk Surrebuttal, p. 5:14-16.)

**b. Overtime – What is the appropriate amount of overtime to include in rates?**

Staff Position:

Staff normalized the test year levels of overtime for each MAWC district using a three-year average of overtime incurred. Staff calculated its normalization of overtime by developing a ratio of overtime dollars to straight time payroll dollars and then multiplied this result by Staff's annualized base payroll. The level of overtime allocated from the Service Company to MAWC during the test year appeared reasonable; therefore, Staff does not propose an adjustment to Service Company allocated overtime at this time. (Staff Cost of Service Report, p. 64.)

**c. Relocation Expense – What is the appropriate amount of relocation expense to be included in rates?**

Staff Position:

MAWC, through its normal course of business, incurs expenses associated with the relocation of its employees. Staff calculated MAWC's relocation expense as $234,120. Staff normalized the relocation expense for MAWC employees, as well as all Service Company allocated relocation expense, based on a three-year average ending December 31, 2016 (Staff Cost of Service Report, p. 69.)

**Engage2Excel Awards – Should the Engage2Excell employee awards expense be included in the cost of service calculation?**

Staff Position:

No. These expenses are excessive in amount and are not necessary to provide safe and adequate service to MAWC's customers. Staff's adjustment is to disallow all $36,245 of Engage2Excel employee award expense. (Newkirk Rebuttal, p. 3:7-10.)

**d. Pension & OPEBs – What is the appropriate amount of Pension & OPEB expenses to be included in rates? Should a portion of non-service components of Pension and OPEB expense be capitalized, and if so, what amount?**

Staff Position:

The appropriate amount of Pension expense to include in rates is $3,132,211. (Staff Cost of Service Report, p. 68:15- 20). The appropriate amount of OPEB expense to include in rates is a negative expense of $807,792. The negative expense is created due to the amortization of the OPEB tracker balance from the previous case, Case No. WR-2015-0301. (Staff Cost of Service Report, p. 69:2-7.)

Pursuant to FASB Accounting Standards Update for Compensation – Retirement Benefits (Topic 715) none of the non-service components of Pension and OPEB expense should be capitalized.

**e. Lobbying – What is the appropriate amount of payroll tied to lobbying expense?**

Staff Position:

Staff's proposed disallowance for lobbying is $230,192. (Newkirk Surrebuttal, p. 7:17-18.) Only four positions (five employees) have a percentage of their salary and benefits removed. The positions affected are: (1) President, (2) Manager of External Affairs, (3) Manager – Government Relations, and (4) Director – Government Affairs. (Newkirk Surrebuttal, p. 6:7-10.)

**f. Capitalization Ratio – Should an amount of labor and expenses related to capital investment be capitalized? If yes, what amount should be capitalized?**

Staff Position:

After allocation between expense and construction (O&M expense ratio), Staff's adjustment for payroll was distributed for each Uniform System of Accounts (USOA) account, based upon the actual distribution experienced by MAWC through December 31, 2016. (Staff Cost of Service Report, p. 65.)

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

Staff Position:

Incentive compensation related to EPS and other financial goals should be excluded in the cost of service calculation. (Staff Cost of Service Report, p. 65-66.) It is inappropriate to include incentive compensation that is tied to EPS and other financial goals that are designed to primarily benefit the shareholder and not the ratepayer. It has been a long standing practice for Staff, and a practice upheld by the Commission, to disallow these costs. (McMellen Surrebuttal, p. 5:1-8:20.)

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

Staff Position:

Incentive compensation related to ESPP should not be included in the cost of service calculation. Staff excluded these costs since there is no actual cash outlay. (Staff Cost of Service Report, p. 67.)

**Rate Case Expense** –

**a. Sharing of Cost – Should rate case expense be shared? If so, what amount of rate case expense should be borne by the ratepayers?**

Staff Position:

Yes, rate case expense should be shared. Rate case expense should be shared based upon the percentage ratio ordered by the Commission for revenue requirement compared to MAWC's requested revenue requirement. (Bolin Surrebuttal, p. 1:20-2:5; ***In the Matter of KCP&L***, ER-2014-0370, *Report and Order*, p.70-71).

**b. Normalization period – What is the appropriate normalization period for recovering rate case expense?**

Staff Position:

Staff calculated this normalized level of rate case expense by analyzing the filing dates of MAWC's requests for rate increases since 2003. From the filing of Case No. WR-2003-0500 through the filing of MAWC's current rate case, there has been an average of approximately 30 months between rate case filings. Therefore, Staff recommends that all rate case expense incurred in this rate case be normalized based on this 30-month interval. (Staff Cost of Service Report, p. 70.)

**c. Prior Case Amortization- What is the appropriate amount of unamortized rate case expense from WR-2015-0301 to be included?**

Staff Position:

The total allowed amount from the last rate case has been updated from $171,373 to $467,511. This increase in total allowed rate case expense from Case No. WR-2015-0301 has resulted in a revised unamortized amount of $196,995 as of December 31, 2017. Staff maintains the position that the appropriate period to amortize this balance is 30 months, resulting in inclusion of an annual amount of $78,798 for the unamortized rate case expense from Case No. WR-2015-0301. (Newkirk Surrebuttal, p. 2:8-13.)

**Wednesday, March 7**

**Usage Normalization** – **What is the appropriate level of normalized residential usage that the Commission should adopt?**

Staff Position:

The appropriate level of normalized residential usage that the Commission should adopt, is the level of normalized usage calculated using Staff's method of a five-year average, as it is the most reasonable and appropriate method in calculating the appropriate usage on a going forward basis (Robertson Surrebuttal p. 4:11-13.) It is Staff's position that the level of normalization for residential customers, as calculated using Staff's five-year average, for Districts No.1 – 3 are: 29,475,779,615; 1,948,164,204; and 1,818,721,650, respectively. Staff calculated the normalized level of residential usage by multiplying the District-specific gallons per customer per day vs District specific customer counts, and multiplying by 365.25 (to account for leap year).

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

Staff Position:

The appropriate amount of revenues to include in the cost of service is $225,425,863 for District 1, $31,275,536 for District 2, and $25,626,942 for District 3. (Staff's *Reconciliation* filed February 14, 2018.)

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

Staff Position:

Staff used the June 30, 2017 meter count for the annual customer charge for all customer classes in its direct filing because its known and measurable. (Sarver Surrebuttal, p. 9.)

**xii. What is the appropriate number of residential meters for District 1 quarterly customers?**

Staff Position:

Staff used the number of active meters as of June 30, 2017 for District 1 quarterly customers that were provided by the Company in its response to Staff's Data Request No. 0026. A pro-rated meter will becomes an active meter for the next quarter. (Sarver Surrebuttal, p. 9.)

**b. Non-Residential Revenues –**

**i. What is the appropriate usage to use for Rate J and Rate A?**

Staff Position:

Staff determined the appropriate consumption usage for Rate A and Rate J using the usage (between Rate A and Rate J) as of June 30, 2017. A percentage allocation factor was calculated based on the overall usage split between Rate A and Rate J. Staff applied the percentage allocation factor to a five-year average for the consumption usage ending June 30, 2017 to determine Rate A and Rate J usage for the five-year period. (Sarver Surrebuttal, p. 9.)

**ii. What is the appropriate annualized number of meters level for each revenue class?**

Staff Position:

Staff used the June 30, 2017 meter count for the annual customer charge for all customer classes in its direct filing because its known and measurable. (Sarver Surrebuttal, p. 9.)

**iii. Should MAWC not use the pro-rated meters for District 1 quarterly customers?**

Staff Position:

Staff used the number of active meters as of June 30, 2017 for District 1 quarterly customers that were provided by the Company in its response to Staff's Data Request No. 0026. A pro-rated meter will becomes an active meter for the next quarter. (Sarver Surrebuttal, p. 9.)

**iv. Should the usage from Water District #2 in Audrain County be allowed or disallowed in calculating the sale for resale District 1?**

Staff Position:

Staff has not removed the Audrain County's Water District #2 (Audrain County) usage from the calculation of the five-year average for Rate B. (Sarver Surrebuttal, p. 10.)

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

Staff Position:

Staff developed the minimum sewer charge revenues by first multiplying the number of customers or meters as of June 30, 2017, to each customer or meter class by the applicable minimum charge as approved in Case No. WR-2015-0301, the Company's last general rate proceeding. (Staff Cost of Service Report, p. 61.) It was Staff's understanding that the number of meters to calculate minimum customer charge would be provided. Staff was not aware that dwelling units would have been more appropriate to use instead of meters to annualize the customer service charge. (Sarver Surrebuttal, p. 11.) MAWC provided an update to Staff's Data Request No. 0026 on January 31, 2018. (Sarver Surrebuttal, p. 11.)

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

Staff Position:

MAWC had 16,200 units for MAWC as of June 30, 2016 therefore the annualized units for MAWC is 194,400. (Sarver Surrebuttal Workpapers.)

**Revenue Stabilization Mechanism (RSM) – Should the Commission adopt a Revenue Stabilization Mechanism?**

Staff Position:

No. Staff does not recommend that the Commission adopt an RSM at this time. (Staff Report on Class Cost of Service and Rate Design, p. 15-16; Busch Rebuttal, p. 2-12; Busch Surrebuttal, p. 2-5.) Alternatively, if the Commission does approve an RSM, the Commission should authorize a reduction in ROE or a change in capital structure to address the lower risk associated with an RSM. (Busch Rebuttal, p. 11.)

**Thursday, March 8**

**Water Rate Design**

**a. Customer Classifications – Should Rate A rate be split into a Residential and a Non-residential rate?**

Staff Position:

No. Rate A should not be split into two separate rates. (Staff Report on Class Cost of Service and Rate Design, p. 7.)

**b. Class Costs – What is the appropriate cost of service for each customer class?**

Staff Position:

The appropriate cost of service for each customer class should be based on Staff's Report on Class Cost of Service and Rate Design, Schedule 1.

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

Staff Position:

Staff recommends that the current customer charges remain in effect. (Staff Report on Class Cost of Service and Rate Design, p. 6 and Schedule 2).

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

Staff Position:

The commodity charge for each customer classification should be based on the results of Staff's Class Cost of Service model. (Staff Report on Class Cost of Service and Rate Design, p 6 – 7 and Schedule 2.)

**e. Miscellaneous Service Charge – What are the appropriate amounts for the miscellaneous service charges related to water service?**

Staff Position:

Staff has presented the appropriate Miscellaneous Service Charges for water and for sewer in Rebuttal Testimony. (Gateley Rebuttal, p. 3.) However, MAWC has presented a correction to Data Request 0038.1 which revises the cost for service activation or discontinuance requested by the customer outside of normal business hours. This correction was presented too late for Staff to address in Surrebuttal. Staff's rebuttal testimony presented the charges for each of these activities at $40.50. MAWC's corrected DR 0038.1 reflects that the actual cost to be $157.85.

**f. Purchased-Power – What is the appropriate allocator for purchased power costs?**

Staff Position:

Staff did not take issue with the appropriate allocator for purchased power costs.

**g. Single Tariff Pricing / District Specific Pricing – Should the Commission keep the current water district structure, adopt single tariff pricing for the water customers, or return to eight water districts?**

Staff Position:

The Commission should keep the current water district rate structure (Staff Report on Class Cost of Service and Rate Design, p. 9-13; Busch Rebuttal, p. 12-17; Busch Surrebuttal p.5-6.)

**i. Offset Mechanism – If the Commission orders consolidated tariffs for water service, should it also order the implementation of the Coalition City Offset Mechanism to allow certain service areas to avoid paying certain capital investment costs?**

Staff Position:

Staff has not taken a position on this specific position, but does recommend keeping the current three district rate design without any additional costs except those currently included in MAWC's cost of service (Staff Report on Class Cost of Service and Rate Design, p. 9-13; Busch Rebuttal, p. 12-17; Busch Surrebuttal p. 5-6.)

**h. Impacts of Pricing Districts on cities/service Areas**

**i. If the Commission adopts either MAWC's or Staff's rate district proposal, should the Commission establish a working group or collaborative process to determine a rate offset for cities/service**

**areas that have borne the costs of their own system upgrades since 2000?**

Staff Position:

Staff has not taken a specific position on this issue, but would not be supportive of establishing a collaborative to look into this concept.

**ii. If the Commission adopts either MAWC's or Staff's rate district proposal, should the Commission establish a working group or collaborative process to explore capital expenditure tracking mechanisms?**

Staff Position:

Staff recommends that the Company continues to file its yearly Five-year Capital expenditure budget that was ordered in WR-2015-0301. (Busch Rebuttal, p. 13-14.)

**Sewer Rate Design**

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

Staff Position:

The appropriate rate structure for the sewer service districts is presented in Staff's Class Cost of Service Report. (Staff Report on Class Cost of Service and Rate Design, Gateley Schedules 8-22.) Staff made this determination based on the revenue requirements in Staff's Cost of Service Report, and the resulting rate calculations. The most important considerations staff took into account were collecting the necessary amount of revenue and leveling the amount customers pay among service territories (Gateley Staff Class Cost of Service and Rate Design Report, p. 14, and Schedule 7.)

**b. Miscellaneous Service Charge – What are the appropriate amounts for the miscellaneous charges related to sewer service?**

Staff Position:

Staff has presented the appropriate Miscellaneous Service Charges for water and for sewer in Rebuttal Testimony (Gateley Rebuttal, p. 3.) However, MAWC has presented a correction to Data Request 0038.1 which revises the cost for service activation or discontinuance requested by the customer outside of normal business hours. This correction was presented too late for Staff to address in Surrebuttal. Staff's rebuttal testimony presented the charges for each of these activities at $40.50. MAWC's corrected DR 0038.1 reflects that the actual cost to be $157.85.

**Low-Income Rate** –

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

Staff Position:

Yes. Staff recommends continuing the current low income rate pilot program in its existing condition (Staff Report on Class Cost of Service and Rate Design, p. 9; Gateley Rebuttal, p. 3.)

**b. What is the appropriate accounting treatment for the current deferred unamortized balance of the pilot program?**

Staff Position:

The accounting treatment for the low-income pilot program should be to include the unamortized balance of actual customer discounts used through June 30, 2017 in rate base and associated amortization in the cost of service in this case. (McMellen Surrebuttal, p. 15:4-8.)

**Friday, March 9**

**AMI Implementation – Should MAWC continue to replace AMR meters with AMI meters?**

Staff Position:

Staff filed no formal position but its testimony is generally not opposed to replacing AMR meters with AMI meters.

**Inclining Block Rates** –

**a. Should the Commission authorize the implementation of inclining block rates?**

Staff Position:

Staff does not recommend implementing an inclining block rate. (Staff Class Cost of Service and Rate Design Report, p. 7.) Sufficient justification does not exist for imposition of an inclining block rate in a pilot program or statewide.

**b. Should the Commission authorize an inclining block rate pilot program?**

Staff Position:

No. Sufficient justification does not exist for imposition of an inclining block rate in a pilot program or statewide. (Gateley Surrebuttal, p. 2-3.)

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

Respectfully submitted,

***/s/* Jacob T. Westen**
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## CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile, or electronically mailed to all parties and or counsel of record on this 21 day of February, 2018.

***/s/* Jacob T. Westen**