BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water	)	
Company's Request for Authority to Implement	)	**<u>File No. WR-2017-0285, et al.</u>**
General Rate Increase for Water and Sewer	)	
Service Provided in Missouri Service Areas.	)	

REPORT AND ORDER

Issue Date: May 2, 2018

Effective Date: May 28, 2018

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OF THE STATE OF MISSOURI

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REPORT AND ORDER

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REPORT AND ORDER

I. Procedural History

A. Tariff Filings, Notice, and Intervention

On June 30, 2017, Missouri-American Water Company (MAWC) filed tariff sheets designed to implement a general rate increase for water and sewer utility services. The tariff sheets bore an effective date of July 31, 2017. In order to allow sufficient time to study the effect of the tariff sheets and to determine if the rates established by those sheets are just, reasonable, and in the public interest, the tariff sheets were suspended until May 28, 2018.

The Commission directed notice of the filings and set an intervention deadline. The Commission granted intervention requests from the following entities: Midwest Energy Consumers Group ("MECG"), Consumers Council of Missouri ("Consumers Council"), City of St. Joseph, Missouri ("St. Joseph"), Triumph Foods, LLC ("Triumph"), Missouri Industrial Energy Consumers ("MIEC"), Missouri Department of Economic Development – Division of Energy ("DE"), Utility Workers Union of America Local 335 ("UWUA"), City of Joplin, Missouri ("Joplin"), Kansas City Power & Light Company ("KCP&L"), KCP&L Greater Missouri Operations Company ("GMO"), Union Electric Company d/b/a Ameren Missouri, Public Water Supply District No. 1 of Andrew County ("PWSD1"), Public Water Supply District No. 2 of Andrew County ("PWSD2"), City of Warrensburg, Missouri ("Warrensburg"), City of Jefferson City, Missouri ("Jefferson City"), the City of Riverside, Missouri ("Riverside"), and the Empire District Electric Company ("Empire").

The Commission consolidated the sewer rate case, File No. SR-2017-0286, with the water rate case, File No. WR-2017-0285.[1]

B. Test Year and True-Up

On August 9, 2017, the Commission issued an order directing the parties to use a test year of the 12 months ending December 2016, with an update period of the six months ending June 2017, and a true-up period of the six months ending December 2017. The Commission also stated parties could present further adjustments for the Commission's consideration based on projected forecasted data past December 2017.

Although a true-up hearing was scheduled, MAWC and the Office of the Public Counsel ("OPC") filed a *Stipulation of Fact Related to True-Up and Motion to Suspend True-Up Procedural Schedule.*[2] The Commission granted the unopposed motion and canceled the true-up schedule.

C. Local Public Hearings

To give MAWC's customers an opportunity to respond to the requested rate increase, the Commission conducted local public hearings in Mexico, Riverside, Warsaw, Warrensburg, St. Joseph, Maryland Heights, Ferguson, Arnold, St. Louis, and Jefferson City.[3]

D. Stipulations and Agreements

Four separate non-unanimous stipulations and agreements were filed that resolved a number of the issues in dispute between the parties. The issues resolved in these three

[1] EFIS Item No. 20. Order Directing Notice, Consolidating Cases, Establishing Deadlines, and Setting Procedural Conference.
[2] EFIS Item No. 419.
[3] EFIS Item No. 7. Order Setting Local Public Hearings.

partial stipulations and agreements will not be addressed further in this report and order, except as they may relate to any unresolved issues.

E. Evidentiary Hearing

The evidentiary hearing was held on March 5-8, 2018. During the hearings, the parties presented evidence relating to the unresolved issues previously identified by the parties.

II. General Matters

A. General Findings of Fact

1. MAWC is a Missouri corporation that provides water service to approximately 464,187 customers and sewer service to approximately 12,844 customers throughout the State of Missouri. MAWC's service territory includes: Branson, Brunswick, Hollister, Houston Lake, Jefferson City, Joplin, Loma Linda, Mexico, Parkville, Platte Woods, Riverside, Reeds Spring, Sedalia, St. Charles, St. Joseph, St. Louis metropolitan area, Warrensburg, Warsaw, and other outlying areas in the State of Missouri.[4]

2. MAWC is a wholly owned subsidiary of American Water Works Company, Inc. ("American Water"), the largest investor-owned water and wastewater utility company in the United States.[5] Headquartered in Voorhees, New Jersey, American Water has regulated water utility subsidiaries in 16 states and provides a variety of services to approximately 15 million people in over 47 states and parts of Canada.[6]

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[4] Ex. 101, Staff Cost of Service Report, p 2.
[5] Id.
[6] Ex. 114 Smith Rebuttal, p 12.

3. American Water created the wholly-owned subsidiary, American Water Capital Corporation ("AWCC"), for the special purpose of serving as the primary funding vehicle for American Water and its subsidiaries, including MAWC.[7]

4. MAWC's financial management is heavily integrated with AWCC and its other operations. MAWC has a Financial Services Agreement with AWCC through which AWCC arranges short-term borrowing and performs cash management for MAWC. AWCC is the primary source of long-term and short-term debt financing for MAWC. As recently as June 30, 2017, over 95 percent of the debt on MAWC's balance sheet was received by means of debt issuance by AWCC.[8] The credit quality of AWCC is based on American Water's consolidated credit quality.[9]

5. On June 30, 2017, MAWC filed tariff sheets seeking an increase in the Company's annual base rate revenues of $74,674,745, an increase of approximately 25.4% in rate revenues. Absent MAWC's proposed Infrastructure System Replacement Surcharge ("ISRS") calculations, MAWC sought a combined water and sewer rate revenue increase of approximately $57,125,669 annually, an increase of approximately 19.4%.[10]

6. On March 1, 2018, the parties filed a Unanimous Stipulation and Agreement that resolved nearly all revenue requirement issues and set a total revenue requirement for MAWC of $318 million; this is an approximate $24 million increase over the previously authorized revenues, or an approximate 8.16% increase.[11]

7. Since rates went into effect from MAWC's last general rate case in 2016,[12] MAWC has acquired small water and wastewater systems in the state. Namely, Jaxon

[7] Ex101, Staff Cost of Service Report, p 32.
[8] Ex. 101, Staff Cost of Service Report p 33.
[9] Ex. 101, Staff Cost of Service Report, p 32.
[10] EFIS Item 2. Ex. 102, Staff Cost of Service Report, p. 1.
[11] EFIS Item No. 261, Stipulation and Agreement, March 1, 2018.
[12] See File No. WR-2015-0301.

Estates Water, Benton County Sewer, Woodland Manor Water, Jaxson Estates Sewer, and Village of Wardsville Water and Sewer.[13]

8. At the time the Company filed its new tariff sheets, MAWC was also in the process of acquiring Pevely Farms Water and Sewer, Spokane Highlands Water, Homestead Estates Sewer, and Radcliffe Place Sewer.[14]

9. Both the Company and Staff performed a Class Cost of Service ("CCOS") study. As part of a settlement, parties agreed to use Staff's calculations for billing determinants. When direct assignment of cost was not possible, Staff used the base-extra capacity method described in the American Water Works Association manual of water supply practices, Principles of Water Rates, Fees and Charges, Seventh Edition when calculating its CCOS study. This method is widely accepted for allocating costs to various customer classes.[15]

10. The long-standing policy of the Commission is to only include in customer rates those investments that are used and useful.[16]

B. General Conclusions of Law

MAWC is a "water corporation," "sewer corporation" and "public utility" as defined in Sections 386.020(43) and 386.020(49), 386.020(59) RSMo, respectively, and as such is subject to the personal jurisdiction, supervision, control and regulation of the Commission under Chapters 386 and 393 of the Missouri Revised Statutes. The Commission's subject matter jurisdiction over MAWC's rate increase request is established under Section 393.150, RSMo.

[13] Ex. 101 Staff Cost of Service Report, p 3.
[14] Ex. 101 Staff Cost of Service Report, p 3.
[15] Ex. Dietrich 12.13.17 p.3-4.
[16] Ex. 500, Meyer Direct. P6.

Sections 393.130 and 393.140, RSMo, mandate that the Commission ensure that all utilities are providing safe and adequate service and that all rates set by the Commission are just and reasonable. Section 393.150.2, RSMo, makes clear that at any hearing involving a requested rate increase the burden of proof rests on the corporation seeking the rate increase. As the party requesting the rate increase, MAWC bears the burden of proof. In order to carry its burden of proof, MAWC must meet the preponderance of the evidence standard.[17]

OPC is a party to this case pursuant to Section 386.710(2), RSMo[18], and by Commission Rule 4 CSR 240-2.010(10). Staff is a party to this case pursuant to Commission Rule 4 CSR 240-2.010(10).

The Commission finds that any given witness's qualifications and overall credibility are not dispositive as to each and every portion of that witness's testimony. The Commission gives each item or portion of a witness's testimony individual weight based upon the detail, depth, knowledge, expertise, and credibility demonstrated with regard to that specific testimony. Consequently, the Commission will make additional specific weight and credibility decisions throughout this order as to specific items of testimony as is necessary.[19]

Any finding of fact reflecting that the Commission has made a determination between conflicting evidence is indicative that the Commission attributed greater weight to

[17] *Bonney v. Environmental Engineering, Inc.*, 224 S.W.3d 109, 120 (Mo. App. 2007); *State ex rel. Amrine v. Roper*, 102 S.W.3d 541, 548 (Mo. banc 2003); *Rodriguez v. Suzuki Motor Corp.*, 936 S.W.2d 104, 110 (Mo. banc 1996), citing to, *Addington v. Texas*, 441 U.S. 418, 423, 99 S.Ct. 1804, 1808, 60 L.Ed.2d 323, 329 (1979).

[18] Unless otherwise stated, all statutory citations are to the Revised Statutes of Missouri, as codified in the year 2016 and subsequently revised or supplemented.

[19] Witness credibility is solely a matter for the fact-finder, "which is free to believe none, part, or all of the testimony". *State ex rel. Public Counsel v. Missouri Public Service Comm'n*, 289 S.W.3d 240, 247 (Mo. App. 2009).

that evidence and found the source of that evidence more credible and more persuasive than that of the conflicting evidence.[20]

III. Disputed Issues

A. Lead Service Line Replacement Program

Findings of Fact

11. The situation in Flint, Michigan increased scrutiny across the country concerning lead concentration in water systems.[21] Lead is a naturally occurring metal that is harmful if inhaled or swallowed. Exposure to lead can cause a variety of adverse health effects, including developmental delays in babies and toddlers and cardiovascular disease and decreased kidney functions in adults.[22]

12. Lead can leach into water over time through corrosion, which is the wearing away of metal due to a chemical reaction between water and plumbing materials. Lead in tap water usually comes from the decay of old lead-based pipes, fixtures, or from lead solder that connects water pipes.[23]

13. Lead solder was banned for use on water pipes in 1986. Congress also set limits on the amount of lead that can be used in plumbing.[24] Federal and state regulations require providers of public drinking water to regularly test for contaminants such as lead.[25]

14. While centralized treatment that adjusts the pH level in water may minimize lead corrosion, plumbing in older communities (including much of MAWC's service territory)

[20] An administrative agency, as fact finder, also receives deference when choosing between conflicting evidence. *State ex rel. Missouri Office of Public Counsel v. Public Service Comm'n of State*, 293 S.W.3d 63, 80 (Mo. App. 2009)
[21] Ex. 1, Aiton Direct, p 16.
[22] Ex. 27, Naumick Rebuttal, Schedule GAN-1,p 6.
[23] Ex. 2, Aiton Rebuttal, Schedule BWA-1, p 3.
[24] Ex. 27, Naumick Rebuttal, Schedule GAN-1, p 4-5. 42 U.S.C. § 300g-6.
[25] Ex. 2, Aiton Rebuttal, Schedule BWA-1, p 3-6.

contains the type of pipes where lead contamination is an increased risk.[26] The installation of lead pipe for water service lines dates back 50 to 100+ years ago.[27]

15. A lead service line ("LSL") is a term used to indicate that the service line connecting the water distribution main in the street to the customer's home is made of lead pipe.[28] With a full LSL replacement, all segments of a service line that contain lead are removed. In contrast, during a partial LSL replacement, only a portion of the service line that contains lead is removed while the portion of the service line containing lead that is owned by the customer remains.[29]

16. Research indicates that galvanic corrosion can occur when only a portion of a LSL is replaced due to the different types of metal coming into contact.[30] The physical disturbance that occurs during a partial LSL replacement also has the potential to increase lead levels following a replacement.[31] A calcium inner coating that insulates lead from potentially corrosive water can easily be dislodged by the cutting or disturbance, exposing the lead material to drinking water. The currently accepted best practice is to undertake a full LSL replacement as opposed to a partial LSL replacement.[32]

17. An increasing number of utilities are reconsidering or avoiding the practice of partial LSL replacement where possible. Due to significant infrastructure needs, MAWC cannot avoid replacing aging infrastructure simply because of connections to LSLs.[33]

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[26] Ex. 1, Aiton Direct, p 16.
[27] Ex. 2, Aiton Rebuttal, Schedule BWA-1, p 3.
[28] Ex. 2, Aiton Rebuttal, Schedule BWA-1, p 3-5.
[29] EFIS Item No. 419, Stipulation of Fact Related to True-Up and Motion to Suspend True-Up Procedural Schedule, Exhibit B, p 1. Ex. 135, Transcript AAO Hearing, p123.
[30] Ex. 27, Naumick Rebuttal, Schedule GAN-1,p 7.
[31] Ex. 135, Transcript AAO Hearing, p123
[32] Ex. 108, Merciel Rebuttal, p 6.
[33] Ex. 2, Aiton Rebuttal, Schedule BWA-1, p9.

18. When main breaks occur, the break must be fixed quickly to restore water service to customers. A large amount of main breaks can result in a material amount of maintenance expense for water utilities.[34]

19. MAWC reviews its distribution system materials inventory to confirm the number and location of LSLs. MAWC uses service line tap records when available, local district knowledge, and in St. Louis, a database containing service tap information to estimate the total number of lead connections. MAWC's preliminary surveys indicate approximately 30,000 LSLs remain in MAWC's system.[35]

20. A water service line connects a customer's home or building to either a water utility's water distribution main or to a utility-owned water service line. Customers are required to own and maintain the portion of the water service line that typically extends from the outdoor water meter (or property line) to the house or building.[36] However, in St. Louis County, customers are required to own and maintain the entire water service line from and including the connection to MAWC's water main to the house or building.[37]

21. MAWC began a program on its own initiative to replace customer-owned LSLs encountered as part of its routine main replacement program. MAWC replaces mains throughout its service area based on multiple factors, including leaks or breaks in the line, or the pipe's age and material. MAWC also coordinates with local municipalities to replace mains in conjunction with road projects.[38]

22. Main replacements involve the utility disconnecting water service lines from a water main. In some situations, the service lines are owned by customers, in which case,

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[34] Ex. 110, Oligschlaeger Rebuttal, p19.
[35] Ex. 2, Aiton Rebuutal, Schedule BWA-1, p 9.
[36] See MAWC's Tariff Sheets - PSC MO No. 13 Original Sheet No. R. 12, Rule 4.C; PSC MO No. 13 1st Revised Sheet No. R 17.F.
[37] Ex. 108, Merciel Rebuttal, p 4.
[38] Id at 5-6.

MAWC must work on the customer's assets by cutting, shortening or extending pipeline, installing new fittings to physically connect the service line to a new water main. This work usually requires no action by individual customers.[39]

23. When MAWC encounters LSLs during a main replacement, as part of its Lead Service Line Replacement ("LSLR") Program, MAWC will proactively replace the lead portion of the service line. This may include Company-owned LSLs and/or lead goosenecks as well as customer-owned portions of LSLs.[40] Replacing LSLs in conjunction with main replacements is cost effective since it reduces restoration costs when coordinated with municipalities as part of road projects.[41]

24. When determining which mains to prioritize for replacements, MAWC prioritizes road construction coordination with municipalities, existence of leaks, and the presence of LSLs. If two mains have the same amount of leaks, MAWC would prioritize a replacement involving a LSL, especially if it serves an at-risk population.[42]

25. During calendar year 2017, MAWC replaced 228 customer-owned LSLs through its LSLR Program.[43] From January 2018 through May 2018, MAWC plans to replace approximately 1,200 customer-owner LSLs. Although the actual amount is unknown, MAWC estimates the cost for those replacements to be approximately $7.2 million.[44]

26. Going forward, MAWC is targeting the replacement of approximately 3,000 customer-owned LSLs per year for an estimated ten years.[45] While the cost may vary,

[39] Ex. 108, Merciel Rebuttal, p 5.
[40] Ex. 2, Aiton Rebuttal, Schedule BWA-1, p 5-6.
[41] Transcript Vol. 15, p 394-395.
[42] Transcript Vol. 15, p 395.
[43] EFIS Item No. 419, *Stipulation of Fact Related to True-Up and Motion to Suspend True-Up Procedural Schedule*, Exhibit A.
[44] Ex. 3, Aiton Surrebuttal, p 5-6.
[45] Ex. 3, Aiton Surrebuttal, p 6. Ex. 135Transcript AAO Hearing, p 162, 173.

MAWC estimates the average cost to replace a single customer-owned LSL is approximately $6,000.00.[46] The annual expense to perform the 3,000 LSLR is estimated to be between $9 million and $16.5 million annually.[47]

27. MAWC acknowledges that it does not own the service lines beyond its mains. As part of its "Water Service Line Replacement License" used in St. Louis for the LSLR Program, MAWC's agreement with customers states that, "[t]he Customer water service line is currently and will continue to be owned and maintained by Customer."[48]

28. In 2017, MAWC requested an Accounting Authority Order ("AAO") that would allow MAWC to book the costs of its LSLR Program as a deferred asset for ratemaking consideration during this rate case.[49] In November 2017, the Commission approved MAWC's AAO request, and allowed MAWC to defer costs incurred between January 1, 2017, through May 31, 2018, as part of its LSLR Program. The Commission directed MAWC to defer and book to Account 186 the costs of all customer-owned LSLR using its short-term borrowing rate as its carrying cost until the effective date of the Report and Order in this general rate case. The Commission reserved the right to consider any ratemaking treatment for the deferred costs until this rate case.[50]

29. The short-term debt rate is typically applied to debt that is recovered within one year.. In its Cost of Service Report, Staff applied a .99% short-term debt rate for MAWC.[51]

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[46] Transcript Vol. 15, p 417- 418.
[47] Ex. 135, Transcript AAO Hearing, p 170.
[48] Ex. 2, Aiton Rebuttal, Schedule BWA-1, p 12.
[49] See *In the Matter of the Application of Missouri-American Water Company for an Accounting Order Concerning MAWC's Lead Service Line Replacement Program*, File No. WU-2017-0296.
[50] See *In the Matter of the Application of Missouri-American Water Company for an Accounting Order Concerning MAWC's Lead Service Line Replacement Program*, File No. WU-2017-0296, EFIS Item No. 80 Report and Order.
[51] Ex. 101, Staff Cost of Service Report, p 15 . Transcript, Vol. 16, p 443,

30. Debts and other obligations that mature more than year from date of issuance or assumption are considered long-term debt.[52] In its Cost of Service Report, Staff applied a 5.35% embedded cost of long-term debt for MAWC.[53]

i. Should MAWC Continue to Replace the Customer-Owned Portion of Lead Service Lines While Performing Water Main Repair and Replacement?

Conclusions of Law and Decision

The Commission is a body of limited jurisdiction and has only such powers as are expressly conferred upon it by the statutes and powers reasonably incidental thereto.[54] The Commission has the statutory authority to prescribe methods for water corporations to keep their accounts, records and books.[55] Commission Rule 4 CSR 240-50.030 prescribes the use of the Uniform System of Account issued by the National Association of Regulatory Utility Commissioners in 1973, as revised July 1976 ("USoA"). MAWC must comply with the requirements of the USoA when reporting its accounts and records to the Commission.[56] However, after a hearing, the Commission can order the prescribed accounts in which particular outlays and receipts shall be entered, charged, or credited.[57]

An AAO is a deferral mechanism that allows a utility to "defer and capitalize certain expenses until it files its next rate case."[58] An AAO is not a rate-making decision.[59] Although an AAO allows a cost to be placed in a separate account for future consideration, it does

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[52] 1976 Revisions of Uniform System of Account for Class A and B Utilities 1973, National Association of Regulatory Utility Commissioners, p 66.
[53] Ex. 101, Staff Cost of Service Report, p 15 and Appendix 2.
[54] *State ex rel. & to Use of Kansas City Power & Light Co. v. Buzard*, 350 Mo. 763, 766, 168 S.W.2d 1044, 1046 (1943).
[55] Section 393.140(4), RSMo.
[56] 4 CSR 240-50.030.
[57] Section 393.140(8), RSMo.
[58] *Mo. Gas Energy v. Pub. Serv. Comm'n*, 978 S.W.2d 436 (Mo.App W.D. 1998).
[59] *Id* at 438.

not create an expectation of recovery, nor does it bind the Commission to any particular ratemaking treatment.[60]

Among other debits, USoA Account 186. Miscellaneous Deferred Debits can be used for "unusual or extraordinary expenses, not included in other accounts." General Instruction No. 7 of the USoA specifically states:

> It is the intent that net income shall reflect all items of profit and loss during the period with the sole exception of prior period adjustments as described in General Instruction 8. Those items related to the effects of events and transactions which have occurred during the current period and which are not typical or customary business activities of the company shall be considered extraordinary items. Commission approval must be obtained to treat an item as extraordinary. Such request must be accompanied by complete detailed information.

The Commission previously found the LSLR Program costs to be extraordinary and authorized MAWC to defer and maintain the costs on its books in Account 186.[61] The evidence presented in this case supports the continuation of the LSLR Program. Lead in drinking water presents a serious health risk. Since partial LSL replacement has the potential to disrupt lead in service lines, public policy supports full LSL replacements.

OPC argues that the LSLR Program violates the terms of MAWC's tariffs that specify that the customer is responsible for the repair and maintenance of their portion of the service line.[62] OPC incorrectly interprets MAWC's tariff as a prohibition on MAWC's efforts to enter a mutual agreement with a customer for the replacement of the customer's LSLs. Under the terms of the written agreement between the customer and MAWC, the customer still owns the line and is responsible for its maintenance. The customer is not required to

[60] *Id*.
[61] *In the Matter of the Application of Missouri-American Water Company for an Accounting Order Concerning MAWC's Lead Service Line Replacement Program*. File No. WU-2017-0296, Report and Order.
[62] PSC MO No. 13 Original Sheet No. R. 12, Rule 4.C; PSC MO No. 13 1st Revised Sheet No. R 17.F.

consent to the replacement, and MAWC is not obligated to replace a customer-owned line outside of the LSLR Program. MAWC is electing to perform the replacements for purposes of providing safe and adequate service by avoiding the risks of partial LSL replacements.

For this reason, the Commission will permit MAWC to continue to defer and book to USoA Account 186 the costs of customer-owned LSL replacements using long-term borrowing rate as its carrying costs. The ratemaking treatment to be afforded these deferred costs may be considered by the Commission in MAWC's next rate case.

ii. Should the Commission Order the Implementation of OPC's Proposed Lead Service Line Replacement Pilot Program?

Findings of Fact

31. OPC opposes the LSLR Program and proposes an alternative two-year pilot study that is capped at $4 million annually for full LSL replacements. OPC states that its proposed pilot study would facilitate substantive research, planning, and communication.[63]

32. American Water has worked extensively with stakeholders at the national, state, and local levels, including participating in working groups with the Environmental Protection Agency, CDC, children's health advisory groups, universities, and other utilities.[64]

33. MAWC has detailed protocols identifying how it addresses LSL discovered during construction. MAWC's written plan identifies how MAWC addresses sampling, flushing, and customer notification of the results of testing, as well as information for customers on how to reduce exposure to lead in drinking water.[65]

[63] Ex. 200, Marke Direct, Sch. GM-3, p 9.
[64] Transcript, Vol. 15, p 328-329.
[65] Ex. 2, Aiton Rebuttal, Schedule BWA-1, p 5-6. Ex. 27, Naumick Rebuttal Rev., Schedule GAN-1, p 12-15.

34. MAWC does not have a written policy on how to proceed when customer consent is not given. MAWC's pattern and practice when replacing LSLs throughout the state is to attempt to contact the customer at least four times to obtain consent before replacing any portion of a customer-owned LSL. When a signed consent agreement is obtained, MAWC performs a full LSLR. If consent is not provided, due to the customer either being unresponsive or refusing to sign an agreement, MAWC performs a partial LSLR.[66]

Conclusions of Law and Decision

OPC's proposed pilot program duplicates MAWC's efforts with the LSLR Program, which for reasons previously stated, the Commission has authorized MAWC to continue with AAO treatment. While many of the concerns expressed by OPC may warrant deeper review and input from stakeholders, the program proposed by OPC is limited to two years and does not appear focused on avoiding the health risks from partial LSL replacements as much as it is concerned with a cost-benefit analysis.

However, the Commission does think it is beneficial to further evaluate topics concerning the LSLR Program. At a minimum, doing so will help the Commission to evaluate ratemaking treatment for the LSLR Program in future rate cases. A working group set up in a separate docket that would not be a contested case would help interested parties discuss topics that include: the feasibility of prioritizing at-risk populations in the LSLR Program; the prudency of costs and how to handle unusual site restorations; a written plan identifying how MAWC will proceed when it lacks customer consent; what

[66] EFIS Item No. 419, Stipulation of Fact Related to True-Up and Motion to Suspend True-Up Procedural Schedule, Exhibits A, B.

records MAWC should maintain; appropriate reporting requirements; the potential distribution of test kits; and, how to provide information to the public.

iii. What Recovery Approach, If Found Prudent by the Commission, Should Be Adopted For The AAO Amount From WU-2017-0296?

Findings of Fact

35. The appropriate true-up balance of the LSL Program through December 31, 2017, excluding all costs associated with customers that do not have a signed agreement is $1,668,796 for 228 total replacements.[67]

36. In response to recommendations from Staff, MAWC agreed to provide annual reporting on the work it plans to perform as part of the LSLR Program, as well as information on completed work.[68]

37. Staff recommends the cost for the LSLR AAO, including carrying cost, be booked in Account 186, Miscellaneous Deferred Debits.[69] Instead of including the LSLR Program costs for 2017 in plant in service, Staff recommends the Commission allow MAWC to earn a return on the expense and amortize the expense and carrying costs over ten years, with the unamortized amount included in rate base. Staff justifies this inclusion in rate base by stating that when the Commission agrees a project associated with an AAO is necessary, the deferred amount is typically included in rate base along with a return on the expenditure.[70]

38. Similar to the cost of repairing sidewalks, mailboxes or a yard disturbed by improvement work, MAWC considers the cost to replace customer-owned LSLs to be a

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[67] EFIS Item No. 419, Stipulation of Fact Related to True-Up and Motion to Suspend True-Up Procedural Schedule, Exhibits A, B.
[68] Ex. 3, Aiton Surrebuttal, p 7.
[69] Ex. 107, McMellen Rebuttal, p 2-3.
[70] Transcript, Vol. 16, p 442-446.

restoration or incidental cost that is associated with restoring a service line to a safe condition.[71]

39. MAWC proposes the costs for the LSLR program be booked into USoA Account 345-Services, which states in pertinent part:

> A. This account shall include the cost installed of service pipes and accessories leading to the customers' premises.
>
> B. A complete service begins with the connection on the main and extends to but does not include the connection with the customer's meter. A stub service extends from the main to the property line, or the curb stop.[72]

40. By booking the LSL costs into Account 345-Services, MAWC states that when construction is completed, related costs would be recorded as plant in service and begin to be depreciated. In the next rate case, the cost of that plant, reduced by depreciation, would be included in rate base and earn a return on a going-forward basis.[73] Plant in service is an asset that is property owned by a company that provides a future benefit to the owner.[74]

41. "Account 186 – Miscellaneous Deferred Debits" in the USoA is used for all debits not elsewhere provided for, such as "deferred by authorization of the Commission, and unusual or extraordinary expenses, not included in other accounts, which are in the process of amortization, and items the final proper disposition of which is uncertain."[75]

42. There is no legal requirement for MAWC to replace customer-owned LSL.[76]

43. When AAO's are approved for recovery treatment by the Commission during a general rate case, they typically are recovered over three to five years. However, since

[71] Transcript Vol. 15, p 284-286. Ex. 135, AAO Hearing Transcript, p 172.
[72] 4 CSR 240-50.030; 1976 Revisions of Uniform System of Account for Class A and B Utilities 1973, National Association of Regulatory Utility Commissioners, p 87-88.
[73] Transcript Vol. 15, p 288-289.
[74] Transcript, Vol. 16, p 444 - 447.
[75] 4 CSR 240-50.030; 1976 Revisions of Uniform System of Account for Class A and B Utilities 1973, National Association of Regulatory Utility Commissioners, p 61.
[76] Transcript AAO Hearing, p 166.

MAWC's LSLR Program is bigger and more extraordinary in nature than most AAO inclusions, Staff recommends the Commission amortize the amount over ten years.[77]

Conclusions of Law and Decision

The Commission has broad discretion to determine which expenses a utility may recover from ratepayers. The Missouri Supreme Court has stated that the Commission's statutory power and authority to set rates "necessarily includes the power and authority to determine what items are properly includable in a utility's operating expenses and to determine and decide what treatment should be accorded such expense items."[78] The Commission's authority extends to allocating an expense between certain classes or groups of ratepayers.[79]

The AAO approved by the Commission in Case No. WU-2017-0296 included costs associated with MAWC 's replacement of customer-owned LSLs performed from January 1, 2017, through December 31, 2017; the end of the true-up period in this rate case. The Commission also allowed the Company to book in USoA Account 186 the costs for the period of January 1, 2018, through May 31, 2018. However, the Commission's order was issued while MAWC was requesting the use of a future test year in this rate case. Since then, MAWC has agreed in a stipulation and agreement to withdraw its request for a future test year. Since the costs past December 31, 2017, are not known and measurable and are outside of the true-up period, the Commission will only consider the ratemaking treatment for the LSLR Program through the end of 2017.

[77] Transcript Vol. 16, p 447-448.
[78] *State ex rel. City of W. Plains v. Pub. Serv. Comm'n*, 310 S.W.2d 925, 928 (Mo. 1958). See also, *State ex rel. KCP& L Greater Missouri Operations Co. v. Missouri Pub. Serv. Comm'n*, 408 S.W.3d 153, 166 (Mo. App. 2013).
[79] *State ex rel. City of W. Plains v. Pub. Serv. Comm'n*, 310 S.W.2d at 934.

As a regulated water corporation, MAWC must use the USoA.[80] MAWC seeks to defer the costs for the LSLR Program as a regulatory asset and include a monthly carrying charge equal to the weighted cost of capital from the last general rate case as part of the deferral, with the deferred amounts booked as a component of plant in service. MAWC would then recover the associated amortization expense for the deferred amount and include future customer-owned LSLRs in plant in service.[81]

As MAWC acknowledges, the LSLR Program is not based on a legal requirement, but rather is something MAWC considers to be "responsible, reasonable, and prudent."[82] While MAWC should be commended and even made whole for its efforts, MAWC is not entitled to a profit from its initiative. USoA Account 345 specifies that the account is for repairs *up to* the customer's lines. MAWC's request to record future LSLR Program replacement costs in USoA Account 345 is improper since MAWC does not own and will never seek to own the customer-owned lines.

Account 186 is the proper account to book the ongoing program costs. The USoA states that 'Amortization' means "the gradual extinguishment of an amount in an account by distributing such amount over a fixed period, over the life of the asset or liability to which it applies, or over the period during which it is anticipated the benefit will be realized."[83] OPC argues that the costs should be amortized over 65 years since that is the expected useful life of a service line, as what is typically included in Account 345.

Since the Commission concludes the LSLRs are costs that should be expensed, it would not be appropriate to amortize the costs over 65 years-the same time for service

[80] Commission Rule 4 CSR 240-50.030(1).
[81] Ex. 107, McMellen Rebuttal, p 2.
[82] EFIS Item No. 440, MAWC's Reply Brief, p4.
[83] 1976 Revisions of Uniform System of Account for Class A and B Utilities 1973, National Association of Regulatory Utility Commissioners, p 12.

lines included in plant in service. The Commission is persuaded by Staff's argument that while AAO costs are normally amortized over three to five years, the extraordinary nature and extent of the LSLR Program justifies extending the amortization period to ten years.

Therefore the Commission will permit MAWC to amortize over ten years the $1,668,796 incurred for the LSLR Program from January 1, 2017, through December 31, 2017. MAWC's long-term debt rate as calculated in Staff's Cost of Service Report shall also be applied to the LSLR Program amount to be amortized.

iv. How Should Costs Be Allocated?

Findings of Fact

44. MAWC recommends the costs for the LSLR Program be assigned based on "Factor 9," which is used to allocate costs in USoA Account 345 – Services.[84] The factor is based on the relative cost of meters by size and customer classification. Factor 9 is calculated by weighting of the costs associated with the different meter sizes in each customer classification excluding public fire.[85] For purposes of the USoA Account 345 – Services, MAWC uses Factor 9 when allocating costs.[86]

[84] Ex. 16, Heppenstall Rebuttal, p 16.
[85] Ex. 104, Staff's *Report on Class Cost of Service and Rate Design*, p4.
[86] Ex. 16, Heppenstall Rebuttal, p 16.

45. When possible, it is better to directly assign costs for the LSLR Program to customer classes than to allocate.[87] This method of assigning cost to the responsible class allows the costs to follow the benefits.[88] With the use of work orders, it is possible for service line replacement costs to be tracked and assigned to the responsible customer class.[89]

46. No evidence was presented to demonstrate Rate B or Rate J customers have lead service lines.[90]

Conclusions of Law and Decision

Where feasible, direct assignment of costs to the responsible customer class is the preferred method of allocation. Credible evidence was presented in the testimony of MIEC's witness Collins that MAWC should be able to directly assign costs for service line replacements to the responsible class. MAWC did not refute that it could perform direct assignment. Therefore, the Commission concludes MAWC should directly assign the cost for the LSLR Program to the customer classes served by the replaced lines.

B. Consolidated Water Districts

Findings of Fact

47. MAWC is currently comprised of three different water-operating districts.[91] The three water districts include the following service territories:

[87] Transcript, Vol. 17, p 643.
[88] Ex. 505, Collins surrebuttal, p 7.
[89] Transcript, Vol. 18, p 892-893.
[90] See EFIS Item No. 426, Staff's Initial Brief, p 35
[91] Ex. 101 Staff Cost of Service Report, p 57.

- **District 1** – St. Louis Metro (St. Louis County, Warren County and St. Charles), Mexico, Jefferson City, Anna Meadows, Redfield, Lake Carmel, Jaxon Estates, and Wardsville;
- **District 2** – St. Joseph, Platte County, and Brunswick; and,
- **District 3** – Joplin, Stonebridge, Warrensburg, White Branch, Lake Taneycomo, Lakewood Manor, Rankin Acres, Spring Valley, Tri-States, Emerald Pointe, Maplewood, Riverside Estates, and Woodland Manor.[92]

48. Within each water district, MAWC has separate rate classes based on the customer's classification. "Rate A" combines residential, commercial and other public authorities. "Rate B" is used by sale for resale customers. "Rate J" consists of industrial customers.[93]

49. In the Report and Order issued two years ago in MAWC's last general rate case, the Commission authorized the consolidation of MAWC's eight water districts into the current three district structure and directed the parties to fully examine single-tariff pricing in the next rate case.[94]

50. Consolidated tariff pricing, otherwise referred to as single tariff pricing ("STP"), is the use of the same rates for the same service rendered by a water company, regardless of the customer's location.[95] In comparison, district-specific pricing ("DSP") takes all of the assigned costs of providing service to each individual district and develops rates based

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[92] Exhibit 103, Dietrich Direct, p 2.
[93] Exhibit 104, Staff's Class Cost of Service Report and Rate Design, p 5-6.
[94] Exhibit 18, Jenkins Direct, p 40. In the Matter of Missouri-American Water Company, *Report and Order*, File No. WR-2015-0301, May 26, 2016).
[95] Ex.15, Heppenstall Direct, p 14. Consolidated pricing may occur when a small water or sewer system is acquired and a regulating commission may not allow a water utility to immediately roll those rates into a consolidated rate cycle. Transcript Vol. 17 p 614.

upon that district's cost of service. In DSP, ratepayers pay only for those costs associated with providing service to that district.[96]

51. Eleven of the fourteen states in which American Missouri has subsidiaries have a form of consolidated rates. A national trend has been moving towards consolidated pricing.[97] MAWC now seeks to fully consolidate all water customers throughout the three districts into one statewide tariff group.[98]

52. The cities of Jefferson City, Warrensburg, and St. Joseph ("Coalition of Cities") propose the Commission return to the eight-district system. The Coalition of Cities argue that since the expense of prior infrastructure improvements in their municipalities were not spread across all MAWC service territories, it would be unfair for their prior contributions to not be considered for special ratemaking treatment. Should the Commission permit the use of STP, the Coalition of Cities urge the Commission to also consider an offset mechanism to credit those prior contributions. However, such an offset mechanism would defeat the purpose of consolidated pricing and would be returning to district-specific pricing.[99]

53. The operating characteristics of MAWC's service areas support STP. All the systems pump their treated water through transmission lines to distribution areas that include mains, booster pump stations and storage facilities. All of the areas rely on a centralized workforce for billing, accounting, engineering, administration, and regulatory matters. MAWC manages the state-wide operations from a common location. The various service areas also rely on a common source of funds for financing.[100]

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[96] Ex. 104, Staff's Class Cost of Service Report and Rate Design, p 10.
[97] Transcript, Vol 17, p 613-615.
[98] Ex. 22, LaGrand Direct, p 18.
[99] Transcript, Vol. 17, p 613.
[100] Ex. 15, Heppenstall Direct, p. 14-16.

54. There is a cycle to capital improvements in a water system that supports consolidated pricing.[101] Customers pay for system upgrades over time through depreciation expense and return on investment, not when the upgrades are installed.[102] STP socializes the costs that would have been paid directly by residents of a specific district.[103] For example, a new water treatment facility was put into service in Joplin in 2007. Under STP, the remaining cost of that facility would be socialized from 2018 until approximately 2057. Only a small portion of the total-when Joplin was its own district- would have been borne directly by residents of Joplin.[104]

55. A move to STP will also support MAWC's acquisition of small underperforming water and sewer systems. The acquisition of troubled utility systems by larger, financially stable utilities is in the best interest of Missouri and its citizens.[105]

56. A concern with STP is that by pooling all costs, all customers must pay a portion of all costs, regardless of costs causation. This could lead to a utility spending more money than necessary, sometimes referred to as "gold plating," since the overall increase would be spread to all customers, which would lower the impact. In comparison, a main detriment of DSP is that for small service areas with few customers, any large investment in rate base can create immediate and long-lasting affordability concerns.[106]

57. Staff recommends the Commission maintain the current three-district water system. Staff argues that the current system has the benefits of both DSP and STP.[107]

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[101] Transcript Vol. 17, p 611-612.
[102] Ex. 16, Heppenstall Rebuttal, p 12.
[103] Transcript Vol 17, p 612.
[104] Id.
[105] Ex.25, LaGrand Surrebuttal, p 26.
[106] Ex. 104, Staff Class Cost of Service Report and Rate Design, p 10-11
[107] Ex. 104, Staff Class Cost of Service Report and Rate Design, p 10-11. OPC, MIEC, and DED agree with Staff's recommendation to maintain the current three district water system.

58. Staff acknowledges that corporate costs are a substantial portion of the cost of service for MAWC. DSP makes allocating those corporate costs to separate service territories difficult. Combining service territories alleviates some of those difficulties by allocating corporate costs to a larger grouping of service territories via the districts in which they are assigned.[108]

59. Approximately 84% of MAWC's water customers live in the St. Louis service area within District 1. While there are over 390,000 Rate A customers in District 1, there are approximately 38,000 customers in District 2 and 38,000 in District 3.[109]

60. There are over 4,500 miles of main in MAWC's St. Louis County's water distribution system. Approximately 95% of the pipes in that system are cast iron or ductile iron. Generally, there are two generations of cast iron pipe. The oldest were generally manufactured prior to 1930, were thicker, and may have lasted beyond their expected service life with few or even no leaks. After 1930, cast iron pipe was thinner and did not prove to be as durable as older cost iron pipe. This newer cast iron pipe is referred to as "spun cast" pipe. Approximately two-thirds of MAWC's St Louis County system is made up of this spun cast pipe. This spun case pipe is two to almost four times more likely to experience failure than older pipe.[110]

61. In 2016, St. Louis County accounted for approximately 73% of the metered water sold by MAWC. Since 2007, MAWC has used an ISRS, a special rate mechanism, to address the cost of replacing aging mains in St. Louis County.[111] An ISRS is a statutorily authorized way for MAWC to recover costs for certain water utility plant projects. The applicable statutes allow MAWC to collect, through surcharges, the cost of eligible

[108] Ex. 104 Staff Class Cost of Service Report and Rate Design, p 10-12.
[109] Ex. 137 and Ex. 45.
[110] Ex. Aiton Rebuttal Testimony, p 4.
[111] Ex. MIEC Meyer Direct, p 16.

replacements without the need of a formal rate proceeding.[112] The ISRS allows for periodic rate changes associated with certain plant in service additions outside of general rate cases.[113]

62. MAWC is only allowed to collect an ISRS from St. Louis County customers, since only projects performed in St. Louis County are eligible for ISRS recovery.[114]

63. In August 2017, MAWC filed its *Petition to Establish an Infrastructure System Replacement Surcharge ("ISRS")*.[115] The Commission approved a Stipulation and Agreement setting new ISRS rates for the Company.[116] By statute, MAWC must file a new general rate case within three years should the Company choose to continue collecting an ISRS.[117] The ISRS would then be reset to zero when new customer rates are established during a general rate case and the replacement costs can be included in the Company's new base rates.[118]

64. MAWC projects an increase in plant of 23% from December 2015 to December 2018.[119] Between January 2018 and May 2019, MAWC plans to perform over $100 million of water and sewer infrastructure replacement investment that may be eligible for recovery through the ISRS.[120]

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[112] Sections 393.1000, 393.1003 and 393.1006, RSMo 2016.

[113] Ex. 110, Oligschlaeger Rebuttal p 23.

[114] Section 393.1003.1, RSMo, authorizes the use of an ISRS in a county with a charter form of government and with more than one million inhabitants. Section 1.100.2, RSMo (Supp. 2017) permits the application of the ISRS statute to St. Louis County, regardless of the county's current population. See also, *Missouri-American Water Company v. Office of the Public Counsel*, 516 S.W.3d 823 (Mo. 2017).

[115] *In the Matter of the Petition of Missouri-American Water Company for Approval to Establish an Infrastructure System Replacement Surcharge (ISRS)*, PSC File No. WO-2018-0059, EFIS Item No. 1 MAWC's Petition to Establish an Infrastructure System Replacement Surcharge and Motion for Waiver.

[116] *In the Matter of the Petition of Missouri-American Water Company for Approval to Establish an Infrastructure System Replacement Surcharge (ISRS)*, PSC File No. WO-2018-0059, EFIS Item No. 20, Order Approving Stipulation and Agreement.

[117] Section 393.1003.2 and 3.

[118] Section 393.1003.2 and 3, RSMo.

[119] Ex. 500, Meyer Direct, p 23.

[120] Ex. 1, Aiton Direct, p 9. Exhibit 45

Conclusions of Law and Decision

The Commission is tasked with setting just and reasonable rates.[121] This means the Commission must set rates that are "fair to both the utility and its customers."[122] The Commission's authority extends to allocating an expense between certain classes or groups of ratepayers.[123]

In MAWC's last rate case, the Commission approved a consolidation of its eight service territories into three. The Commission stated that the needs of the customer must be met no matter where they happen to live, or how recently the Company's infrastructure in their area was installed or replaced. That principle still applies in this rate case.

Consolidation of the various districts benefits customers since a majority of MAWC's costs, such as operations and management, are fixed. Consolidation helps customers by avoiding the rate shock that would occur when a system must undergo major system improvements. Although the water industry is moving towards STP, St. Louis County's unique circumstance makes it inappropriate to consolidate all three water districts at this time. St. Louis County is subject to the ISRS, which is a surcharge not recovered from other customers of MAWC, which can increase a customer's bill by as much as ten percent of the Company-wide revenues. By combing all three districts, customers in St. Louis County would be disadvantaged by being the only area paying the additional surcharge until costs can be included in rate base, while still contributing to improvements in other areas.

Moreover, while Districts 2 and 3 are comparable in the number of customers served, the St. Louis area is disproportionally larger. Full consolidation would increase the potential for imprudent spending by MAWC, since the impact of increases will be shared by more

[121] Section 393.130 (2016).
[122] *State ex rel. Valley Sewage Co. v. Public Service Commission*, 515 S.W.2d 845, 850 (Mo. App. 1974).
[123] *State ex rel. City of W. Plains v. Pub. Serv. Comm'n*, 310 S.W.2d at 934.

customers. By combining Districts 2 and 3, the Company can still seek to acquire small struggling systems and make system improvements while avoiding rate shock.

Therefore, the Commission finds it appropriate for MAWC to consolidate Districts 2 and 3 Rate A and J customers while maintaining a separate District for St. Louis County customers. MAWC should remove those systems in District 1 that are not in St. Louis County, including Warren County, St. Charles, Anna Meadows, Redfield, Lake Carmel, Jaxon Estates, Wardsville, Mexico, and Jefferson City, and place those systems into the consolidated Districts 2 and 3.

Although MAWC initially sought to consolidate Rate B customers in Districts 2 and 3, it later agreed with the position of Public Water Supply Districts Nos. 1 and 2 of Andrew County that the volumetric rate for all Rate B sale for resale customers should be equivalent across districts.[124] Since no party disputes this position, the Commission finds it appropriate to apply an equivalent volumetric rate for Rate B customers for all service areas.

C. Residential Customer Charge

Findings of Fact

65. Rate design serves two purposes. First, rates must be designed for each customer class in each service territory that will give the utility an opportunity to collects its approved revenue requirement. Secondly, rates must be designed to collect the appropriate levels of revenue from each service territory and from each customer class.[125]

66. Utilities incur both fixed and variable costs to provide service to customers.

[124] Ex, 17, p 4, Ex. 136. PWSD Reply Brief.
[125] Ex.104, Staff's Class Cost of Service Report and Rate Design, p 6.

67. The parties agreed at hearing that the volumetric charge can be calculated based on the ultimate determination of rate design, specifically the customer charge. The parties do not dispute how that calculation is performed. From a recommended rate design and customer charge, an appropriate volumetric charge can be calculated.[126]

68. While 91.4% of MAWC's costs of providing water service are considered fixed costs, only 24.3% of its revenues are collected through the customer charge.[127] In an attempt to minimize the monthly customer charges, utilities frequently recover a portion of their fixed capacity costs through volumetric rates. MAWC currently recovers a substantial portion of fixed capacity costs though its volumetric charge.[128]

69. MAWC's fixed costs typically captured through the customer charge-or its "cost per customer"-includes expenses for meters, services, and billing and collections.[129]

70. The 5/8-inch meter ("5/8 meter") is the basic meter size for Rate A residential customers, although it also serves some commercial and other public authorities.[130] MAWC bills customers either monthly or on a quarterly basis. Currently, only customers in District 1's St. Louis area are billed quarterly.[131]

71. In District 1, MAWC's actual cost per customer for a 5/8 customer billed monthly is $17.33 and $28.23 for quarterly billed customers. In District 2, the cost per customer for a 5/8 meter customer billed monthly is $17.67. In District 3, the cost per customer for a monthly billed 5/8 meter customer is $15.05.[132]

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[126] EFIS Item No. 426, Staff's Initial Brief, p 31-32.
[127] Ex. 18, Jenkins Direct, p 19.
[128] Ex. MIEC York Surrebuttal p16,
[129] Ex. 137.
[130] Ex.116, Busch Rebuttal, p12. Ex. 45.
[131] Ex.116, Busch Rebuttal, p12. Ex. 136.
[132] Ex. 137.

72. For all Rate A, 5/8 meters customers, MAWC currently charges a monthly customer charge of $15.38 and a quarterly charge of $22.35.[133]

73. MAWC is proposing to lower the monthly customer charge for all Rate A 5/8 meter customers to $10 per month from the current $15.33 per month and to raise the quarterly customer charge from $22.35 to $30.00, or three times MAWC's proposed monthly customer charge.[134]

74. Staff supports maintaining the currently effective customer charges.[135]

75. DE asserts that from an efficiency perspective, the better policy would be to maintain the current $22.35 customer charge for 5/8 meter quarterly billed customers and to set the monthly charge at one-third of that amount, or $7.45 per month.[136]

76. At the Commission's request, MAWC submitted calculations on the impact a $9.00 monthly/$27.00 quarterly customer charge for 5/8 meter would have on rates.[137]

77. MAWC is currently installing Advanced Metering Infrastructure ("AMI") in its St. Louis County system. AMI radio antennae are added to existing meters or incorporated into new meters that are replaced due to length of service timing.[138] An AMI program allows remote reading of meters at customers' homes and businesses. As of June 13, 2017, MAWC had installed 46,000 meters that were equipped with the new AMI technology.[139] MAWC has approximately 370,000 residential customers who are billed on a quarterly basis, while the remainder are billed monthly. All quarterly billed customers are

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[133] Id.
[134] Ex.116, Busch Rebuttal, p12.
[135] Ex. 104, Staff Class Cost of Service Report and Rate Design, p 6. OPC and CCM support Staff's position.
[136] Ex. 602, Hyman Rate Design Rebuttal, p 5-7. EFIS Item No. 424, Initial Brief of Missouri Division of Energy.
[137] Ex. 47. MAWC also submitted Ex. 46, which shows the rate impact of an $8.00 customer charge for 5/8 meter.
[138] Ex. 1, Aiton Direct, p 10.
[139] Ex. 11, Clarkson Direct, p 21.

located in St. Louis County. MAWC seeks to convert the quarterly-billed customers to monthly billing.[140]

78. By transitioning customers to AMI, MAWC will be able to reassign the employees who typically read meters manually to other activities and convert quarterly customers to monthly billing. Monthly billing can also help customers identify water leaks sooner.[141]

Conclusions of Law and Decision

Under Missouri law, the Commission must set just and reasonable rates.[142] Determining an appropriate customer charge is a question of rate design, not a question of the company's revenue requirement. The new AMI technology will enable better meter reading efficiencies and provides the opportunity to transition customers in St. Louis County from quarterly to monthly billing. Monthly billing helps customers evaluate their usage and avoids prolonged water leaks. Therefore, the Commission finds it is appropriate to move those quarterly customers to monthly billing once AMI technology is installed on a customer's meter.

Any increase in the Company's customer charge should be accompanied by a decrease in volumetric rates so that, in theory, the company recovers the same amount of revenue. The Commission considers that an important goal of rate design is to allow the utility to recover costs from those who cause the costs to be incurred while still allowing customers control over their bills through efficiency.

Customer-related costs are generally recovered through the customer charge, which serves to prevent higher usage customers from subsidizing lower usage customers, sends

[140] Transcript Vol. 18, p 819.
[141] Transcript, Vol. 17, p 617-619.
[142] Section 393.130.1, RSMo, "…All charges made or demanded by any…water corporation … shall be just and reasonable and not more than allowed by law or by order or decision of the commission…"

all customers more accurate pricing signals, and provides more stable and predictable funding for utilities' fixed costs.

MAWC seeks to increase the monthly customer charge for all 5/8 meter to $10.00. Staff supports the higher monthly customer charge currently in effect of $15.33, and DE suggests a lower monthly customer charge of $7.45. MAWC's fixed operating costs (cost per customer) related to District 1 monthly customers with a 5/8 meter are $17.33 and $28.23 for quarterly customers.[143]

The Commission requested MAWC submit calculations on the impact a $9.00 monthly/$27.00 quarterly customer charge for 5/8 meter would have on rates for Rate A customers in all the districts.[144] Since a large portion of MAWC's residential customers are billed quarterly, moving the quarterly customer charge closer to the $28.23 cost per customer amount will allow MAWC to recover more of its fixed costs through the customer charge. In addition, while a $9.00 monthly customer charge for all Rate A 5/8 meter customers may be lower than the current $15.33 customer charge, it is consistent with the range of customer charges proposed by the various parties.[145] Therefore, the Commission concludes that the appropriate 5/8 meter customer charge is $9.00 per month and $27.00 quarterly.

Decision Summary

In making this decision as described above, the Commission has considered the positions and arguments of all of the parties. Failure to specifically address a piece of evidence, position or argument of any party does not indicate that the Commission has

[143] Ex. 137 Monthly Customer Charge Work Paper from Barnes.
[144] Ex. 47.$9 Monthly 5/8 Meter Charge Rates.
[145] Ex. 137 Monthly Customer Charge Work Paper from Barnes. All parties appear to be in agreement that the customer charge, regardless of the amount approved by the Commission, should be consistent across the districts for all Rate A 5/8 meter customers.

failed to consider relevant evidence, but indicates rather that the material was not dispositive of this decision.

By statute, orders of the Commission become effective in thirty days, unless the Commission establishes a different effective date.[146] In order that this case can proceed expeditiously, the Commission will make this order effective on May 28, 2018.

THE COMMISSION ORDERS THAT:

1. The April 6, 2018, Motion *of the Missouri Industrial Energy Consumers to Strike a Portion of the Initial Brief Missouri American Water Company* is denied.

2. The tariff sheets submitted on June 30, 2018, by Missouri-American Water Company, assigned Tariff Nos. YW-2017-0276 and YW-2017-0277, are rejected.

3. Missouri-American Water Company is authorized to file tariff sheets in compliance with this order no later than May 4, 2018.

4. Missouri-American Water Company shall file the information required by Section 393.275.1, RSMo, and Commission Rule 4 CSR 240-10.060 no later than May 9, 2018.

5. The Staff of the Missouri Public Service Commission shall file its recommendation concerning approval of Missouri-American Water Company's compliance tariff sheets no later than May 10, 2018.

6. Any other party wishing to respond or comment regarding Missouri-American Water Company's compliance tariff sheets shall file the response or comment no later than May 10, 2018.

[146] Section 386.490.3, RSMo.

7. A separate working docket shall be opened to address issues concerning the LSLR Program. Parties in this case shall automatically be made parties to that docket unless they request otherwise.

8. Missouri-American Water Company shall file an annual report on the LSLR Program with the Commission for review by February 15 of each year after the effective date of the rates in this case. The required annual report shall include information on the footage of main, number of customer connections, and estimated number and costs of customer-owned lead service lines replaced for that year. The participants in the working docket described in Ordered Paragraph 7 may also recommend additional information to be included in the annual report.

9. This Report and Order shall become effective on May 28, 2018.

BY THE COMMISSION

Morris L. Woodruff
Secretary

Hall, Chm., Kenney, Coleman, and Silvey, CC., concur;
Rupp, C., dissents.

Burton, Senior Regulatory Law Judge.