

**NON-UNANIMOUS AGREEMENT REGARDING DISPOSITION OF
SMALL UTILITY COMPANY REVENUE INCREASE REQUEST**

THE RAYTOWN WATER COMPANY

MO PSC FILE NO. WR-2023-0344

BACKGROUND

The Raytown Water Company, ("Company") initiated the small company revenue increase request ("Request") for water service that is the subject of the above-referenced Missouri Public Service Commission ("Commission") File Number by submitting a letter to the Secretary of the Commission in accordance with the provisions of Commission Rule 20 CSR 4240-10.075, Small Utility Rate Case Procedure ("Small Company Procedure"). In its request letter, which was received at the Commission's offices on April 3, 2023, the Company set forth its request for an increase of \$735,103 in its total annual water service operating revenues. The Company also acknowledged that the design of its customer rates, its service charges, its customer service practices, its general business practices and its general tariff provisions would be reviewed during the Commission Staff's ("Staff") review of the revenue increase request, and could thus be the subject of Staff's recommendations. The Company provides service to approximately 6,541 water customers.

Pursuant to the provisions of the Staff Assisted Rate Case Procedure and related internal operating procedures, Staff initiated an audit of the Company's books and records, a review of the Company's customer service and general business practices, a review of the Company's existing tariff, an inspection of the Company's facilities and a review of the Company's operation of its facilities. (These activities are collectively referred to hereinafter as Staff's "investigation" of the Company's Request.)

Upon completion of its investigation of the Company's Request, Staff provided the Company and the Office of the Public Counsel ("Public Counsel") with information regarding Staff's investigation and the results of the investigation, including Staff's initial recommendations for resolution of the Company's Request.

RESOLUTION OF THE COMPANY'S RATE INCREASE REQUEST

Pursuant to negotiations held subsequent to the Company's and Public Counsel's receipt of the above-referenced information regarding Staff's investigation of the Company's request, Staff and the Company hereby state the following agreements:

- (1) The agreed upon water revenue requirement increase of \$1,174,782 (27.26% increase) added to the level of current revenues of \$4,309,019 results in overall annual revenues of \$5,483,801. This revenue requirement is just and reasonable and designed to recover the Company's cost of service. These amounts are shown on the ratemaking income statements found in Attachment A, incorporated by reference herein;
- (2) The Auditing Department conducted a full and complete audit of the Company's books and records using the 12-month period ended December 31, 2022 updated to June 30, 2023, as the basis for the revenue requirement determined above. The audit findings can be found in Attachments B and C, incorporated by reference herein;
- (3) The agreed upon net rate base is \$9,144,649 for water service. The development of this amount is shown on the rate base worksheet that is found in Attachment D, incorporated by reference herein. This amount is included in the audit work papers in the ultimate determination of the revenue requirement shown in (1) above;
- (4) Included in Attachment B is the agreed upon capital structure which includes the Company's overall recommended rate of return of 6.80%, which is calculated based on a hypothetical capital structure consisting of 37.97% debt, 47.20% common equity, and 14.82% preferred equity, with a cost of debt of 3.75%.
- (5) The schedule of depreciation rates in Attachment E, incorporated by reference herein, includes the depreciation rates used by Staff in its revenue requirement analysis and shall be the prescribed schedule of water/sewer plant depreciation rates for the Company;
- (6) To allow the Company the opportunity to collect the revenue requirement agreed to in (1) above, the rates as shown on Attachment F, incorporated by reference herein, are just and reasonable rates that the Company will be allowed to charge its customers. The impact of these rates will be as shown on Attachment G, also attached and incorporated by reference herein;
- (7) For the purposes of implementing the agreements set out in this disposition agreement, the Company will file with the Commission, proposed tariff revisions containing the rates, charges, and language set out in the example tariff sheet(s) attached as Attachment H. The proposed tariffs will contain a set of consolidated rates, charges, and rules for water customers. The proposed tariff revisions will bear an effective date of October 30, 2023;
- (8) The Company shall mail its customers a final written notice of the rates and charges included in its proposed tariff revisions prior to or with its next billing cycle after issuance of the Commission order approving the terms of this Non-Unanimous

Disposition Agreement. The notice shall include a summary of the impact of the proposed rates on an average residential customer's bill.

(9) Staff or Public Counsel may conduct follow-up reviews of the Company's operations to ensure that the Company has complied with the provisions of this Non-Unanimous Disposition Agreement;

(10) Staff or Public Counsel may file a formal complaint against the Company, if the Company does not comply with the provisions of this Non-Unanimous Disposition Agreement;

(11) The Company, Staff and Public Counsel agree that they have read the foregoing Disposition Agreement, that facts stated therein are true and accurate to the best of the Company's knowledge and belief, that the foregoing conditions accurately reflect the agreement reached between the parties; and that the Company freely and voluntarily enters into this Disposition Agreement; and

(12) The above agreements satisfactorily resolve all issues identified by Staff, Public Counsel and the Company regarding the Company's request, except as otherwise specifically stated herein additional matters.

Additional Matters

Other than the specific conditions agreed upon and expressly set out herein, the terms of this Non-Unanimous Disposition Agreement reflect compromises between the Staff and the Company, and no party has agreed to any particular ratemaking principle in arriving at the amount of the annual operating revenue increase specified herein.

The results of Staff's inspections and review of the Company's operation of its facilities can be found in the Water, Sewer, & Steam Department Report, Attachment J. Staff has completed a Summary of Case Events and has included that summary as Attachment K to this Non-Unanimous Disposition Agreement.

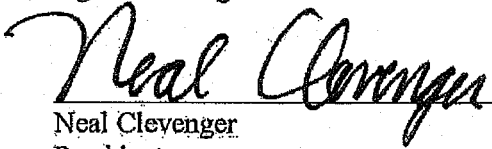
The Company, Public Counsel, and Staff acknowledge that Staff will be filing this Non-Unanimous Disposition Agreement and the attachments hereto, in the existing case and that the Company will file the proposed tariff revisions called for in the agreement. The Company and Public Counsel also acknowledge that Staff may make other filings in this case.

Additionally, the Company and Public Counsel agree that subject to the rules governing practice before the Commission and without waiving the confidentiality of the facts and positions disclosed in the course of settlement, Staff shall have the right to provide an oral explanation to support its entering into this Non-Unanimous Disposition Agreement, if the Commission requests one at any agenda meeting at which this case is noticed to be considered by the

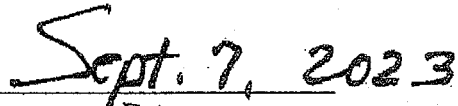
Commission. Subject to the rules governing practice before the Commission and without waiving the confidentiality of the facts and positions disclosed in the course of settlement, Staff will be available to answer Commission questions regarding this Non-Unanimous Disposition Agreement. To the extent reasonably practicable, Staff shall provide the Company with advance notice of any such agenda meeting so that it may have the opportunity to be present and/or represented at the meeting.

SIGNATURES


Agreement Signed and Dated:



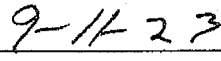
Neal Clevenger
President
The Raytown Water Company



Date



Curtis Gateley
Manager – Water & Sewer Department
Missouri Public Service Commission Staff



Date

List of Attachments

- Attachment A – Ratemaking Income Statement
- Attachment B – Auditing Department Report
- Attachment C – EMS Run
- Attachment D – Rate Base Worksheet
- Attachment E – Schedules of Depreciation Rates
- Attachment F – Rate Design Worksheet
- Attachment G – Billing Comparison Worksheet
- Attachment H – Example Tariff
- Attachment I – CXD Report
- Attachment J – Water and Sewer Department Report
- Attachment K – Summary of Events

**Disposition Agreement Attachment J
Water, Sewer, & Steam Department Report**

WATER, SEWER, & STEAM DEPARTMENT FIELD OPERATIONS AND TARIFF REVIEW

INTRODUCTION

Staff performed an inspection of the water system on Wednesday Thursday April 26, 2023 with the Owner / President, Neal Clevenger and Vice-President, Chiki Thompson. A description of the facilities and a listing of Staff's observations and suggestions for improvement is listed below. At the time of Staff's inspection the facilities appeared to be operating routinely.

WATER SYSTEM OVERVIEW

The RWC certificated service includes approximately two-thirds of the City of Raytown and a small portion of the City of Independence, both of which are suburban communities in Jackson County, near Kansas City, MO. RWC reported 6,541 metered service connections.¹ RWC does not produce any of its own water, it purchases water wholesale from Kansas City (KC).

There are 379,210 feet of water main distributing water through the RWC service area. The majority of the pipe, 318,941 feet (84%), is cast iron. The rest of the distribution system is made up of various materials of pipes including: galvanized iron, polyvinyl chloride (PVC), ductile iron, and even some copper pipe. The pipes range in size from two-inches to twelve-inches in diameter. Water is received through any of eight metered connections which can be opened and closed as needed. Seven of the connections are six-inch water meters and the other is a four-inch water meter. The metering points are owned by RWC but the meters themselves are owned by KC.

On July 14, 2022, RWC signed a twenty year Purchase Water Agreement (PWA) with KC. This agreement guarantees RWC up to three million gallons of water per day (MGD) under normal operating conditions. The PWA allows for KC to restrict water use to RWC in the event KC is not able to provide more. It is written in the PWA that RWC maintain enough water in storage to "during normal and peak operating periods, storage facilities shall be available and used to the fullest extent for the purpose of offsetting peak demand." The PWA also includes language allowing the cost of water being purchased by RWC to be increased by KC as needed.

RWC customers use an average of 1.1 MGD. The availability of water to RWC and others who receive water from KC can depend on KC customer water use as well as emergency events that take place within KC's water system, such as main breaks and water flow for firefighting. Extraordinary usage caused by events such as these can affect available flow through several of

¹ DR 0092

the metering points at the same time. Under normal operating conditions RWC should be able to receive more than adequate water supply from KC, but if flow is disrupted then it is good for RWC to maintain plenty of water in storage.

Since RWC is a wholesale customer, it is important to have sufficient storage in the event the event of a lack of supply. RWC has three elevated storage tanks, which in total can store 2.5 million gallons of water. KC delivers water to Raytown with enough pressure to push the water to the top of the storage tanks so pumping equipment is not required. In the event of a water main break or fire in the KC area or to one of the other districts to which it supplies water, the amount of water being provided to RWC could be limited. In that case, it would be beneficial to RWC to have additional water storage. A fourth elevated storage tank, built in 1925, stands near the old office building. This tank was taken out of service and removed from rates by the PSC several years ago after the large two-million gallon hydropillar storage tank was built, because it was determined by Staff to no longer be needed. According to RWC, the city fire department has urged RWC to place the fourth storage tank back in service to provide more consistent water pressure in the downtown area.

SYSTEM OPERATIONS REVIEW

RWC has a contract with Suez, a specialty contractor, for storage tank maintenance. The contractor monitors tank condition, and undertakes minor and major repairs and rehabilitation when necessary. Suez has also been working with RWC to replace all of the water meters to new Advanced Meter Infrastructure (AMI) technology to increase reliability and decrease water loss reporting. RWC states that the contractor provides excellent response when called upon. The storage tanks are in generally good condition as detailed in 2019 tank inspection reports reviewed by Staff.

OPERATIONS RECORDS

RWC maintains a Geographic Information System (GIS) record of its water mains along with locations of valves, fire hydrants and meter settings. Locations of these components are on photograph maps both on paper, and in electronic format available in the office on a computer or in the field on an electronic tablet. In addition to locations on the GIS map system, fire hydrant inventory with information regarding the make, condition, and maintenance work is kept in a paper document. RWC undertakes routine painting and maintenance checks every few years. Additionally, RWC states that it regularly corresponds with the city fire department, which is authorized to operate and test fire hydrants, and which keeps hydrant test flow records.

Similar to hydrants, valve inventory is shown on RWC's GIS map system, but RWC also has paper records of valve location and operation with information regarding size, location, direction and number of turns to open, normal position (open or closed), condition information of the valve and valve box, and date of exercise/inspection. Valves are inspected and operated as needed, and as such, there is not a regularly conducted valve exercise program. RWC states that

it has identified several areas where additional valves are desirable, in order to reduce the number of affected customers when work is conducted in the areas. Additional valves are being installed in conjunction with new mains or main replacements.

All RWC customers are metered. Meter records are kept in a searchable electronic database. RWC uses the meter size and age sort functions for the meter test program that meets Commission Rule 20 CSR 4240-10.030(38). This rule requires 5/8-inch meters used on most residential and small commercial customers to be tested every ten (10) years or 1.5 million gallons, whichever is first. Larger meters are required to be tested more frequently and with greater registered volumes, based on size.

Although in the past, water utilities, including RWC, would test and rebuild all meters on this schedule, now most utilities simply replace 5/8-inch and 3/4-inch size meters with new meters, because the low cost of new small meters makes this more economical. RWC has replaced approximately half of the old meters with new AMI meters which can be read remotely. AMI technology will save time for meter readers who can now perform other tasks. AMI meters allow RWC to give better information to customers who dispute high water bills. The data provided by AMI meters can determine down to the hour how much water was used by a customer.

Because of RWC's proximity to its wholesale water provider, KC, there are some sections of KC's or RWC's water mains that are located generally along city limit boundaries in streets, with KC residents/customers on one side of the street and RWC customers as either City of Raytown or City of Independence residents on the other side. According to the RWC staff, there are currently eleven RWC customers who are actually connected directly to a water main owned by KC and served through KC meters, where KC bills RWC for water service and RWC bills each customer using its approved water rates. Also the opposite scenario exists; there are currently twenty-six KC customers who are connected directly to a water main owned by RWC and served through RWC meters, where RWC bills KC for water service and then KC bills its customers using its water rates.

RWC maintains written operations plans that include: Operational Policy & Procedures, Main Leak and Repair Program, and Contractor Qualification Requirements. Copies of these plans were provided during the system inspection and they are adequate for the RWC system.

RWC states that it is understaffed to perform the work required and would greatly benefit from two additional field workers which would allow the Company to have a fully staffed leak repair and main replacement crew as well as a fully staffed restoration crew in addition to the meter readers who also perform disconnections and reconnections as needed. Staff has encouraged RWC to hire two new field workers in order to do the work required and show evidence of the benefit to have these additional workers approved and have the additional salaries included in rates. To date, Staff has not received any documentation from RWC about the hiring of additional workers

or any information about the efforts made and the difficulties encountered in the attempt to hire qualified workers.

OTHER OPERATIONS MATTERS

RWC, and the City of Raytown, have an agreement that provides for discontinuance of water service by RWC for nonpayment of sewer bills to the City of Raytown as the sewer utility. This activity is authorized by state statutes, §§393.015 and 393.016, RSMo, and RWC tariff Rule 13A. RWC states that the agreement is exercised routinely, and seems to be working well.

TARIFF REVIEW

Staff reviewed a current copy of the tariff. Raytown's current tariff became effective September 8, 2020. Staff will work with Raytown to revise P,S.C. MO No. 5 4th Revised Sheet No. 9, 2nd Revised Sheet Nos. 10 – 11, and 1st Revised Sheet No. 12 if changes to rates are approved by the Commission.

RATE DESIGN

Staff reviewed the current rate design and is not making any recommendations in this rate case that would change the existing rate structure. Currently, all of the Company's customers pay a monthly fixed customer charge and a commodity rate per thousand gallons of water consumed. New rates have been calculated based on the increase and have been included in the supporting documents.

CONCLUSION AND RECOMMENDATIONS

Staff has no specific recommendations at this time regarding operations. Staff has not received any customer complaints nor customer comments that would indicate significant shortcomings from an operations perspective.