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

In the Matter of the Application of a Rate
Increase of Raytown Water Company

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Case No. WR-2023-0344

POST-HEARING BRIEF

Respectfully Submitted,

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December 6, 2023

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COMES NOW the Staff of the Missouri Public Service Commission (“Staff”), by and through counsel, and files its Post-Hearing Brief:

Introduction

Raytown Water Company (“RWC”) filed its notice of rate increase on April 4, 2023. Staff sent its preliminary Day 90 report to both the Company and the Office of Public Counsel (“OPC”) on July 3, 2023. Between that time and the filing of the Non-Unanimous Agreement between Staff and the Company on September 13, 2023, minimal changes were made to Staff’s recommendations. OPC had ample opportunity to ask questions about any concerns it had with the report. While the staff assisted rate case procedures primarily direct cooperative effort between Staff and the Company, once Staff completes its Day 90 report, OPC has every opportunity to be as involved or uninvolved as they choose. In this specific case, OPC’s involvement truly began when they filed a request for hearing on September 29, 2023.

Staff is not arguing that Raytown’s rates will not be increasing or that the increase jointly proposed by Staff and Raytown is more than that originally requested by the Company, but I will argue that Staff and the Company are proposing just and reasonable rates to allow Raytown to provide safe and adequate service.

- 1. Advanced Metering Infrastructure (“AMI”)**
 - a. How should this AMI investment be treated for rate making purposes?

As of June 30, 2023, the end of the update period in this case, RWC has placed 3,073 of the 6,811 meters, or 45.12%, in service. Therefore, Staff has included 45.12% of the total AMI meter cost in revenue requirement.¹ OPC witness Dr. Geoff Marke recommends the inclusion of the total of RWC AMI investment which is \$3.8 million.² This treatment is not proper under the USOA:

346. Meters:

A. This account shall include the cost of meters, devices and appurtenances attached thereto, used for measuring the quantity of water delivered to uses, whether actually in service or held in reserve.

B. When a meter is permanently retired from service, the amount at which it is included herein shall be credited to this account.

C. The records covering meters shall be so kept that the utility can furnish information as to the number of meters of each type and size in service and in reserve as well as the location of each meter included in this account.³

To be included in plant in service it must be used and useful.⁴ As of June 30, 2023, only 45.12% of RWC's AMI meters are used and useful.

- b. Should the Commission grant a return on the AMI investment?
- Yes, RWC should earn a return on the meters that are installed as of June 30, 2023. RWC's AMI investment was a prudent one due to the many benefits of AMI meters.⁵ Specifically, "AMI meters are far

¹ Ex. 110 Rebuttal Testimony of Angela Niemeier, p. 7, l. 22-24.

² Ex. 200, Direct Testimony of Dr. Geoff Marke, p. 15, l. 9.

³ NARUC's 1976 Revisions of USOA for Class A and B Water Utilities 1973, p. 88.

⁴ Ex. 110 Rebuttal Testimony of Angela Niemeier, p. 7, l. 8.

⁵ Ex. 111, Rebuttal Testimony of David A. Spratt, p. 2, l. 6-12.

superior at helping customers detect leaks, are more accurate than conventional meters, allow more cost efficient utility operation, and can be upgraded with other modern benefits to utility customers.”⁶

- c. Should the commission include all known and measureable AMI investments that the Company has either in service or in inventory in rate base?

Staff has included 45.12%, or \$1,746,097, of the total AMI cost in plant. Staff has only included AMI meters that were in service as of June 30, 2023. According to Staff witness David A. Spratt, “the remainder of meters that were installed after June 30, 2023 should be included in the next rate case.”⁷

2. Late Fees: Should the Commission eliminate or reduce late fees?

No, the Commission should not eliminate late fees for RWC. While some larger utilities in the state of Missouri have eliminated late fees, those companies are not burdened by that change as RWC would be. As stated by Staff witness Melanie Clark:

First, MAWC and Confluence are larger utility companies. They have parent companies that operate in multiple states with large capital resources, which means they are better situated to deal with late customer payments and delayed revenue. RWC is a small utility, locally owned and operated with much smaller economic resources than the larger water companies in Missouri. The late fees are an incentive to encourage customers to pay on time and keep the revenue flowing. Secondly, all the customers would be charged more to compensate for the loss of revenue current generated by the late fee. MAWC and Confluence have a lot more customers, approximately 503,000 and 9,883, respectively, to offset that loss of revenue; whereas RWC has much fewer at only 6,597.⁸

⁶ Id.

⁷ Id. at p. 6, l. 16-17.

⁸ Ex. 106, Rebuttal Testimony of Melanie Clark, p. 3, l. 3-11.

Late fees are commonly included in the tariffs of small water companies regulated by the PSC.⁹ Like other small water companies, without the economic benefits afforded larger companies, RWC's late fee should continue to be included in its tariff.

3. Depreciation

a. Reserve Transfer

1. Should depreciation reserves be transferred from over-accrued accounts to not-fully-accrued accounts?

Yes. As stated by Staff witness Angela Niemeier in her Surrebuttal Testimony, Staff agrees with OPC and had inadvertently omitted a second step in the process dealing with over-accrued accounts.¹⁰

2. If so, to which accounts should the depreciation reserves be transferred?

Auditing Staff worked with the Engineering Analysis Department to apply a corresponding positive adjustment to the accounts 346.2 Meters and 390 Structures and Improvements-GP. The total amount transferred to these accounts is \$51,559. Correcting this adjustment reduced Staff's recommended revenue requirement by \$4,297.¹¹

- b.** Should depreciation expense be removed for the existing plastic meters?

⁹ Tr. Vol. II, p. 218, l. 19-21.

¹⁰ Ex. 116, Surrebuttal Testimony of Angela Niemeier, p. 2, l. 2-10.

¹¹ Id. at l. 13-17.

In the revenue requirement, Staff made an adjustment to depreciation expense for the plastic meters (Account 346.000) by reducing its annual deprecation by 45.12% as an offset for the inclusion of the depreciation for the installed AMI meters. Once all AMI meters are in service, the depreciation for the remaining plastic meters can be removed.

- c. Should depreciation reserve be adjusted to reflect the salvage values from the Company's vehicle sales in 2022 and 2023?

Staff has not taken a position on this issue at this time.

- 4. Customer Notice:** In what instance should the Company send additional notice of a proposed rate increase that differs from the original, noticed rate increase?

Staff has not taken a position on this issue at this time.

- 5. Distribution Mains Operations and Maintenance ("O&M"):** What value of non-labor operations and maintenance expense should be included for distribution mains?

Staff included an annual level of \$411,370 in Account 673 Maintenance of Transmission & Distribution Mains in revenue requirement for Day 150.¹² In Staff's view O&M logically increases when a company makes necessary repairs to its system.¹³ Therefore, OPC's recommendation that O&M expense be based on a three year average does not fully allow RWC to recover the costs of maintaining its distribution system.¹⁴

- 6. Rate of Return**

- a. What is the appropriate return on common equity?

¹² Accounting Schedule 9, p. 1 attached to Ex. 101, Direct Testimony of Keith Foster.

¹³ Ex. 112, Rebuttal Testimony of Darron A. Williams, p. 7, l. 12-14.

¹⁴ Ex. 203, Surrebuttal Testimony of Joh A. Robinett, p. 5, l. 19-22.

The appropriate return on common equity (“ROE”) for RWC is 10.37%.¹⁵ According to Staff witness Randall Jennings,

...Staff’s recommended authorized ROE is based on RWC’s estimated credit rating, the difference between United States Corporation Index averages, Public Utility Bond Yield averages and an estimated risk premium. Staff’s recommendation of a 10.37% authorized ROE would fairly compensate RWC for its current market COE.¹⁶

Staff does not agree that OPC witness David Murray’s recommended ROE of 9.12% is appropriate for RWC.¹⁷ Mr. Murray bases his recommendation on stipulations contained in the Non-unanimous Agreement between Staff and RWC, which is not in effect and has not been approved by the Commission, to calculate pro forma credit metrics to predict their effects on RWC’s implied credit rating.¹⁸

Because he is relying on agreements that have not been approved, Mr. Murray’s recommended ROE cannot be used; he is relying upon assumptions that are not definite and may never occur.

- b. If the Commission agrees to change the return on common equity, should the dividend rate on preferred stock change for the purposes of rate of return?

Staff has not taken a position on this issue at this time.

- 7. **Cash Working Capital (“CWC”):** Should cash working capital be included in rate base?

¹⁵ Ex. 102, Direct Testimony of Randall Jennings, p. 2, l. 20.

¹⁶ Id. at p. 2, l. 20 to p. 3, l. 3.

¹⁷ Ex. 204, Rebuttal Testimony of David Murray, p. 6, l. 15.

¹⁸ Ex. 114, Surrebuttal Testimony of Randall Jennings, p. 3, l. 7-10.

No, cash working capital (“CWC”) should not be included in rate base. CWC is the money used by a utility company for the day-to-day costs of providing a utility service to its customers; more specifically, it is the amount of money necessary for a utility company to pay for its expenses incurred before it receives any payment for those expenses from its ratepayers.¹⁹ To determine an appropriate amount of CWC, a lead/lag study/CWC study must be performed which involves an “analysis of timing of when funds are paid to suppliers and when the utility receives the good and services, compared to when the utility receives revenues from customer bills for the utility service it provides.”²⁰ The results of this study result in a CWC amount, either negative or positive, depending on if ratepayers or shareholders, respectively, supply funds.²¹

For smaller utility companies, like RWC, lead/lag studies are not typically performed because they are (1) labor intensive, particularly on the shortened timeline of staff-assisted rate cases and (2) result in minimal impact on revenue requirement. The cost is not worth the potential of a minimal benefit.²²

OPC witness John S. Riley supports the inclusion of CWC in RWC’s rate base, though he did not perform a lead/lag study of his own.²³ He instead, refers to a schedule he created with figures from recent rate cases,

¹⁹ Ex. 110, Rebuttal Testimony of Angela Niemeier, p. 3, l. 19-22.

²⁰ Ex. 110, Rebuttal Testimony of Angela Niemeier, p. 4, l. 10-12.

²¹ Id. at p. 4, l. 14-16.

²² Ex. 110, Rebuttal Testimony of Angela Niemeier, p. 4, l. 20 to p. 5, l. 3.

²³ Ex. 205, Direct Testimony of John S. Riley, p. 3, l. 21-22.

two RWC cases and two cases filed under the traditional rate case procedures.²⁴ The companies that filed under the traditional rate case procedures are Missouri-American Water Company and Confluence Rivers Utility Operating Company. While Confluence can technically file under the staff-assisted rate case procedures, they chose to file under the traditional procedures.

When questioned about expense lags at the evidentiary hearing, Mr. Riley was unable to tell Staff where his number for cash vouchers expenses lag originated.²⁵ Therefore, without justification for its position, OPC's number should not be utilized or relied upon.

8. Payroll Expense

- a. Should all of the Company's employee overtime be normalized?

Staff did not file testimony on this issue, as it is first addressed by OPC in surrebuttal. As is detailed below, Staff reviews overtime and payroll expenses for prudence. Staff annualized overtime for all employees using the 12 months ending December 31, 2022, the end of the test year.

- b. What is the just and reasonable amount to include in rates for the Company's Vice President, Sr. Accounting Clerk, Jr. Accounting Clerk, and Sr. Customer Service/Admin. Assistant?

Staff did not file testimony on this issue, as it is first addressed by OPC in surrebuttal. In WR-2020-0264, RWC's most recent rate case, the Company reevaluated their employee pay. Those wages went

²⁴ Schedule JSR-D-02.

²⁵ Tr. Vol. III, p. 351, l. 6-24.

into rates. Staff evaluated wage increases in accordance with the Cost-of-Living Allowances (“COLA”) increase for each year since the prior rate case. Staff also reviewed Missouri Economic Research and Information Center (“MERIC”) for the Kansas City region for 2022 to ensure that their new hourly wages were below the MERIC median wages for their current positions.²⁶

OPC wishes to treat the four employees listed in this issue as salaried employees. In the revenue requirement, Staff has included the entire amount at each employee’s current hourly pay, plus overtime. Staff evaluated these wage increases in accordance with the COLA increases for each year since the prior rate case and reviewed the wages to ensure they were consistent with MERIC.²⁷

As stated by Staff witness Angela Niemeier, “It is not Staff’s place to tell a private business how to pay their employees. Staff reviews wages for prudence to determine ongoing costs.”²⁸ Based on its analysis of COLA increases and MERIC, Staff views RWC’s payroll expenses to be reasonable.

9. Meter Reading Expense: What is the just and reasonable amount to included in rates for meter reading expenses?

Following the full implementation of AMI meters, RWC employees currently responsible for meter reading will take on new job responsibilities.²⁹ After

²⁶ Ex. 110, Rebuttal Testimony of Angela Niemeier, p. 10

²⁷ Id.

²⁸ Id. at p. 9, l. 20-21.

²⁹ Ex. 112, Rebuttal Testimony of Daronn A. Williams, p. 2, l. 7-17.

all AMI meters are installed, the duties of a meter reader will expand to include water testing required by the Missouri Department of Natural Resources and Environmental Protection Agency, and one meter reader will be transferred to the field crew to “help with water main breaks, disconnects, restoration and regular system maintenance duties.”³⁰ Staff expects these changes to be a benefit to both RWC and its customers. As of the update period, June 30, 2023, meter readers were still performing the job of a meter reader. The payroll expense for meter readers should remain in this rate case. Staff will evaluate the employee positions in the next rate case.

10. Rate Case Expense

- a. What amount of rate case expense should be included in the cost of service?

As of the date of the evidentiary hearing, the appropriate amount of rate case expense to be included in RWC’s cost of service is \$5,856.³¹ It is Staff’s view that all rate case expense incurred during this case through the filing of reply briefs should be included in RWC’s cost of service. According to Staff witness Sherrye Lesmes:

The Office of the Public Counsel (“OPC”) requested the hearing in this case, compelling RWC to hire legal representation in this matter. Therefore, Staff agrees it would be appropriate to update the recommended revenue requirement to include all prudently incurred rate case

³⁰ Id.

³¹ Schedule KDF-d2 to Ex. 101, Direct Testimony of Keith Foster.

expense, such as legal representation and other related costs.³²

Staff is not arguing that OPC, or any party, should not request a hearing, but the practice of allowing small utility companies who file under the staff-assisted rate case procedures to recover the full amount of their rate case expense is the best option. Allowing smaller companies to file under the staff-assisted rate case procedures saves companies time and money that they may not have; while a company should know that a hearing is always a possibility, many small utility rate cases settle before a hearing is requested.

b. Should rate case expense be amortized or normalized?

Yes. Rate case expense should be normalized. Staff witness Sherrye Lesmes states,

Normalization adjustments are intended to reflect normal ongoing operations. Specific to rate case expense, the costs incurred by the utility can fluctuate from one case to another. Therefore, Staff will evaluate those costs from case to case to determine a normalized level.³³

Staff normalized rate case expense over a two-year period based on its best assumption for when RWC will file its next rate case.³⁴

It is of note that Staff included, and OPC did not object to, the inclusion of a normalized level of rate case expenses in

³² Ex. 109 Rebuttal Testimony of Sherrye Lesmes, p. 3, l. 5-8.

³³ Ex. 115, Surrebuttal Testimony of Sherrye Lesmes, p. 2, l. 19-22.

³⁴ Id. at p. 4, l 5-7.

Case Nos. WR-2012-0405, WR-2012-0246, and WR-2020-0264 (RWC's last three rate cases).³⁵

- c. Should the rate case expense follow a 50/50 sharing mechanism?

No. As stated above, Staff's view is that it is appropriate to update the revenue requirement to include all prudently incurred rate case expenses. The option of using a 50/50 sharing mechanism for rate case expense was first addressed in the Surrebuttal Testimony of Manzell M. Payne.³⁶ Mr. Payne supports this view with the evidence that the Commission has ordered a 50/50 sharing mechanism for rate case expense during recent rate cases involving Spire Missouri, The Empire District Gas Company, and Missouri-American Water Company.³⁷ During the evidentiary hearing Mr. Payne stated that he was aware that these three companies are not eligible to file under the staff-assisted small utility rate case procedures, and, thus, must have legal representation from the time a rate case is filed.³⁸

Unlike the companies referenced by Mr. Payne, RWC did not have to hire legal representation until OPC requested a hearing.

11. Truck Disallowance

- a. What amount of the Company's Truck 206 should be included in revenue requirement?

³⁵ Id. at p. 3, l. 10-14.

³⁶ Ex. 208, Surrebuttal Testimony of Manzell M. Payne, p. 2-3.

³⁷ Id.

³⁸ Tr. Vol. III, p. 366, l. 11-24.

With minimal personal use of this truck by Neal Clevenger, Staff believes the full amount of the truck should be included in rate base in the revenue requirement.

- b. How should the Company be reimbursed for the personal use of its vehicles?

Since Case No. WR-2009-0098, RWC has used the IRS Standard Mileage Rates for calculating Neal Clevenger's reimbursement for his personal use of the Company Truck assigned to him. Staff has not proposed any changes to the Company's reimbursement for personal use of its vehicles. RWC has used the IRS Standard Mileage Rate for company vehicles rentals since at least 2002.³⁹

12. 1993 Management Audit

- a. Should the Company be required to follow any recommendations spelled out and agreed upon in the 1993 management audit?

No, RWC should not be required to follow any recommendations spelled out and agreed upon in the 1993 management audit. The case associated with the management audit, Case No. WO-93-194 was closed in 2000. According to Staff witness David A. Spratt, "During the time of Staff's inspection it was satisfied with the operations and management of RWC. Staff has assisted RWC with numerous cases since that time and has not found any cause for concern with the Company."⁴⁰ Just as important as Staff's lack of

³⁹ Ex. 108, Rebuttal Testimony of Courtney Horton, p. 3, l. 20 to p. 4, l. 1.

⁴⁰ Ex. 111, Rebuttal Testimony of David A. Spratt, p. 7, l. 13-15.

concern is that the Commission “has offered clear guidance that it is not interested in micromanaging companies.”⁴¹

Further, Staff is not interested in combing through decades old management audits to see if companies are meeting the standards recommended by former Staff members and approved by a former Commission. Management practices change, technology changes, and not meeting recommendations from 1993 does not indicate failure on the part of the Company to serve its customers, nor does it indicate failure on the part of Staff for allowing the Company’s practices to change.

- b. If so, which of the 1993 audit recommendations should the Company be required to follow?
- c. If so, what benchmarking policy should the Company follow to ensure it is following these recommendations?

Conclusion

In summary, the position that Staff and RWC has taken in this case will result in RWC’s customers continuing to receive safe and adequate service at just and reasonable rates. RWC should be allowed to recover their AMI invest; RWC should be allowed to recover all of their rate case expense; and RWC should be allowed to run their private business as they see fit.

WHEREFORE, Staff submits this Post-Hearing Brief for the Commission’s consideration and information.

⁴¹ Id. at 20-21.

Respectfully Submitted,

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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 counsel of record this 6th day of December, 2023.

/s/ Casi Aslin