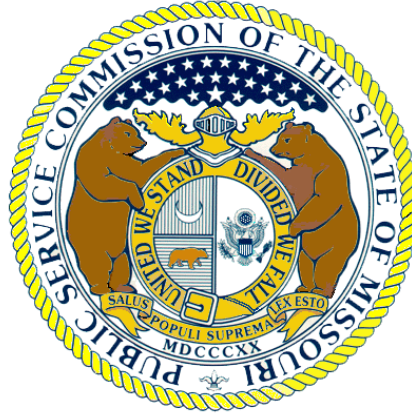


**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**



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

**File No. WR-2023-0344**  
Tracking No. JW-2024-0039

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**REPORT AND ORDER**

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**Issue Date:** January 18, 2024

**Effective Date:** January 29, 2024

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## **REPORT AND ORDER**

### **Procedural History**

On April 4, 2023,<sup>1</sup> The Raytown Water Company (Raytown Water, or the Company) filed a letter requesting an increase in its overall annual operating revenue of \$735,102.73 under the Staff assisted rate case procedures. The request was approximately a 14.20% increase over Raytown Water's existing tariff rate. Raytown Water serves approximately 6,541 water customers.

The Commission directed notice of the filings and set an intervention deadline. No requests to intervene were received. One local public hearing was held on May 22, via WebEx.<sup>2</sup>

Raytown Water and the Staff of the Commission (Staff) reached an agreement and on September 13 submitted a Non-Unanimous Agreement Regarding Disposition of Small Utility Company Revenue Increase Request (Disposition Agreement). The Disposition Agreement was based on an analysis of Raytown Water's cost of service for a test year ending December 31, 2022, and an update period ending June 30, 2023. Pursuant to the Staff assisted rate case procedures, on September 14 Raytown Water filed a tariff implementing the Disposition Agreement, assigned Tracking No. JW-2024-0039, that carried an effective date of October 29.

The Office of the Public Counsel (OPC) objected to the Disposition Agreement and requested a hearing. The pending tariff, assigned Tracking No. JW-2024-0039, was suspended by the Commission until January 29, 2024.

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<sup>1</sup> All dates refer to 2023 unless otherwise indicated.

<sup>2</sup> Transcript Volume (Tr. Vol.) 1.

An evidentiary hearing was held November 16 and 17.<sup>3</sup> Pre-filed testimony was filed according to the procedural schedule. Exhibits and live testimony were provided during the evidentiary hearing, including several post-hearing exhibits. Initial post-hearing briefs were filed on December 6,<sup>4</sup> and reply briefs on December 13.

Twelve issues were presented for the Commission's decision and are addressed in this Report and Order.

### **Pending Motion to Strike**

Leading up to the evidentiary hearing, each party filed its own motion to strike certain witness statements. On November 14, Raytown Water filed its motion to strike regarding certain aspects of the pre-filed testimony of OPC witnesses John Riley and Manzell Payne. On November 15, Staff filed its motion to strike regarding certain other aspects of OPC witness Payne's pre-filed testimony. Later on November 15, OPC filed its motion to strike regarding certain aspects of the pre-filed testimonies of Raytown Water witness Neal Clevenger and Staff witness Angela Niemeier.

At the evidentiary hearing all motions to strike were withdrawn or consented to with the exception of Raytown Water's motion to strike. Raytown Water consented to OPC's motion to strike a portion of Mr. Clevenger's testimony.<sup>5</sup> OPC then withdrew its motion to strike regarding Ms. Niemeier's testimony, and Staff withdrew its motion to strike Mr. Payne's testimony.<sup>6</sup>

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<sup>3</sup> Tr. Vols. 2 and 3.

<sup>4</sup> Public Counsel's initial brief was late-filed on December 7 at 12:07 a.m., which was accepted. OPC, later on the same date, filed a replacement initial brief at 3:48 p.m. The replacement brief was accepted by the Commission on December 8.

<sup>5</sup> Tr. Vol. 3, p. 226. The portion struck was Ex. 7, Clevenger Surrebuttal, p. 2, ln. 13 through p. 6, ln. 17, Section IV EI ERA Limitations.

<sup>6</sup> Tr. Vol. 3, pp. 227-230.

The Company's motion to strike remains.<sup>7</sup> OPC filed its written response on November 16, and Raytown Water responded to OPC's response on November 28. The central issue to both testimonies being challenged is whether either witness introduced a new subject in surrebuttal testimony in violation of Commission Rule 20 CSR 4240-2.130(7)(D).

### **Riley's testimony**

Raytown Water objected to lines 11-17 of page 12 of OPC witness Riley's surrebuttal testimony.<sup>8</sup> Specifically, Raytown Water argues that the following sentence within those lines is the first mention of normalizing employee overtime, "It is odd that Staff chose instead to accept this overtime pay as a salary expense without applying any testing, three-year average, or other normalization method." Raytown Water argued that this mention in surrebuttal testimony of normalization led to the issue submitted by the parties as "Should all of the Company's employee overtime be normalized?"

The Company also stated that the above sentence appeared within a section of Mr. Riley's surrebuttal that was addressing the overtime of Chiki Thompson, Vice President. Raytown Water further argued that this statement is not responsive to any other party's rebuttal testimony.

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<sup>7</sup> Tr. Vol. 3, p. 230.

<sup>8</sup> The objected to lines of Mr. Riley's testimony are as follows:

11 **Q. How did Staff witness, Angela Niemeier, view Ms. Thompson's wage and overtime?**

12 A. Ms. Niemeier question[ed] neither Ms. Thompson's wage increase, nor Ms. Thompson's amount

13 of overtime, which demonstrates a lack of professional skepticism. Total Company overtime  
14 has fluctuated over the years but seems to spike in the test year periods of 2014 and 2019.

15 This should have led Staff to approach this issue more critically and perform a more robust  
16 analysis. It is odd that Staff chose instead to accept this overtime pay as a salary expense

17 without applying any testing, three-year average, or other normalization method.

OPC responded that Mr. Riley was responding to the rebuttal testimony of Staff witness Angela Niemeier, page 9, lines 20 and 21, which states:

20 A. It is not Staff's place to tell a private business how to pay their employees. Staff 21 reviews wages for prudence to determine ongoing costs.

### **Payne's testimony**

Raytown Water objected to lines 8-17 of page 7 of witness Payne's surrebuttal testimony.<sup>9</sup> Specifically, the motion points to the following sentence fragment, "that overtime for all office employees with a managerial or senior role be disallowed from annualized payroll." Raytown Water argued that this mention in surrebuttal testimony is the first such mention of the proposed disallowance and is not responsive to any other party's rebuttal testimony.

OPC responded that Mr. Payne was responding to Staff witness Niemeier rebuttal testimony, pages 9 to 10, as follows:

For this case, Staff's recommended salary assigned to Ms. Thompson is \$150,184. This amount includes overtime. For 2022, the Missouri Economic Research and Information Center (MERIC) reported \$166,570 for median pay for chief executive positions in the KC region. Staff's annualized wage for Ms. Thompson, that includes overtime, is below MERIC's median pay for chief executives.

Q. How did Staff calculate payroll expense for [Raytown Water] employees including [Raytown Water] employee Chiki Thompson's wage?

A. Staff began with the approved rates in the last case and added the Cost-of-Living Adjustment (COLA) increases for each year since 2020, when the most

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<sup>9</sup> The objected to lines of Mr. Payne's testimony are as follows:

**8 Q. What are you recommending be done with annualized payroll for this rate case?**

9 A. I recommend that the Commission disallow overtime pay that is being annualized for Ms. 10 Thompson. I will further state, that overtime for all office employees with a managerial or 11 senior role be disallowed from annualized payroll. As stated above, overtime is biased to the 12 year and work being performed in that year. So why make rate payers pay an annualized 13 amount of overtime that has the possibility to not occur.

**14 Q. What additional employees and their overtime amounts are you recommending 15 annualized overtime be disallowed from?**

16 A. The additional employees are Leslie Smart and Erica Baier, with overtime amounts of \$8,768 17 and \$5,783, respectively.

recent rates were approved. In this case, Staff reviewed the payroll expense of each individual employee.

OPC argued that its witness took the argument regarding the overtime of Ms. Thompson and merely expanded that argument to include three additional employees besides Ms. Thompson.

Raytown Water responded that the arguments for the additional<sup>10</sup> employees may be different than those present for Ms. Thompson, and the Company had no chance to respond to the testimony that added the additional employees.

### **Legal Standard**

Commission Rule 20 CSR 4240-2.130(7)(D) states as follows:

Surrebuttal testimony shall be limited to material which is responsive to matters raised in another party's rebuttal testimony.

### **Discussion**

The question of normalizing employee pay is first mentioned in Mr. Riley's surrebuttal. However, the Commission finds that the rebuttal testimony of witness Niemeier opened the door by referencing all employees and how Staff reviews those wages. Although the Commission would prefer that proposed disallowances be clearly stated earlier, Mr. Riley's testimony is responsive to rebuttal testimony. The Commission will deny Raytown Water's motion to strike a portion of Mr. Riley's testimony.

As to Mr. Payne's surrebuttal testimony, he proposed a disallowance of overtime for employees with a managerial or senior role. The Commission finds that Mr. Payne's proposal of a disallowance of overtime for those employees with a managerial or senior role is responsive to the quoted testimony of Ms. Niemeier. As above, the Commission

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<sup>10</sup> The Company's reply pleading stated five additional employees, while OPC's pleading referenced four. The exact number is not needed to determine this issue.



finds that the rebuttal testimony opened the door to all employees by its own such reference. Thus, the Commission finds Mr. Payne’s surrebuttal testimony responsive to rebuttal testimony. The Commission will deny Raytown Water’s motion to strike a portion of Mr. Payne’s testimony.

### **General Findings of Fact**

1. Raytown Water is a certificated Missouri “water corporation”, and “public utility” as those terms are defined at Section 386.020, RSMo (Supp. 2023).

2. Raytown Water’s certificated service area includes approximately one-half of the City of Raytown and a small portion of the City of Independence, in Jackson County, Missouri.<sup>11</sup>

3. The Company serves approximately 6,541 metered service connections.<sup>12</sup>

4. OPC is a party to this case pursuant to Section 386.710(2), RSMo (2016)<sup>13</sup> and by Commission Rule 20 CSR 4240-2.010(10).

5. Staff is a party to this case pursuant to Commission Rule 20 CSR 4240-2.010(10).

6. On September 13, 2023, Staff and Raytown Water signed and filed a *Non-Unanimous Agreement Regarding Disposition of Small Utility Company Revenue Increase Request* (Disposition Agreement).<sup>14</sup>

7. On September 19, 2023, OPC objected to the Disposition Agreement and requested an evidentiary hearing.<sup>15</sup>

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<sup>11</sup> Ex. 5, Clevenger Direct, p. 3.

<sup>12</sup> Ex. 101, Foster Direct, Schedule KDF-d2, p. 5 of 9.

<sup>13</sup> All statutory references are to the 2016 edition, unless otherwise noted.

<sup>14</sup> Non-Unanimous Agreement Regarding Disposition of Small Utility Company Revenue Increase Request, filed September 13, 2023.

<sup>15</sup> Office of the Public Counsel Pleading and Request for an Evidentiary Hearing, filed September 19, 2023.

8. The Company supports the rate increase included in the Disposition Agreement, and seeks an added amount related to rate case expense.<sup>16</sup>

9. The parties presented twelve issues for determination by the Commission, as follows:

- 1) Advanced Meter Infrastructure;
- 2) Late Fees;
- 3) Depreciation;
- 4) Customer Notice;
- 5) Distribution Mains Operations and Maintenance;
- 6) Rate of Return;
- 7) Cash Working Capital;
- 8) Payroll Expense;
- 9) Meter Reading Expense;
- 10) Rate Case Expense;
- 11) Truck Disallowance; and
- 12) 1993 Management Audit.<sup>17</sup>

### **General Conclusions of Law**

A. Raytown Water is a public utility and water corporation as those terms are defined in Section 386.020, RSMo (Supp. 2023). By the terms of the statute, Raytown Water is a water corporation and is subject to regulation by the Commission pursuant to Chapters 386 and 393, RSMo.

B. Subsections 386.250(3), 393.140(5) and (11), RSMo, give the Commission authority to regulate the rates Raytown Water may charge customers for water service.

C. Raytown Water can charge only those amounts set forth in its tariffs.<sup>18</sup>

D. Utilities are required to provide safe and adequate service.<sup>19</sup>

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<sup>16</sup> Ex. 5, Clevenger Direct, p. 2.

<sup>17</sup> List of Issues, List and Order of Witnesses, Order of Opening, and Order of Cross-Examination, filed November 9.

<sup>18</sup> Sections 393.130 and 393.140, RSMo.

<sup>19</sup> Sections 393.130 and 393.140, RSMo.

E. In determining the rates the Company may charge its customers, the Commission is required to determine whether the proposed rates are just and reasonable.<sup>20</sup>

F. Raytown Water is a small utility pursuant to 20 CSR 4240-10.075(1)(A). Therefore, Raytown Water filed its rate case under the Staff Assisted Rate Case Procedure under 20 CSR 4240-10.075.

G. Raytown Water has the burden of proving the proposed rates are just and reasonable, pursuant to 20 CSR 4240-10.075(4).

H. In order to carry its burden of proof, Raytown Water must meet the preponderance of the evidence standard.<sup>21</sup> In order to meet this standard, the Company must convince the Commission it is “more likely than not” that the proposed rate increases are just and reasonable.<sup>22</sup>

I. The Commission’s Rule setting forth the procedures for Staff assisted rate cases are found in 20 CSR 4240-10.075. Several pertinent subsections follow:

(4) Staff will assist a small utility in processing a small utility rate case insofar as the assistance is consistent with staff’s function and responsibilities to the commission. Staff may not represent the small utility and may not assume the small utility’s statutory burden of proof to show that any increased rate is just and reasonable.

\* \* \*

(6) Local public hearing. A local public hearing shall be scheduled to occur no later than sixty (60) days after the opening of the case unless staff files a notice in the case stating that all parties agree a local public hearing is not necessary.

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<sup>20</sup> Section 393.130.1, RSMo.

<sup>21</sup> *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).

<sup>22</sup> *Holt v. Director of Revenue, State of Mo.*, 3 S.W.3d 427, 430 (Mo. App. 1999); *McNear v. Rhoades*, 992 S.W.2d 877, 885 (Mo. App. 1999); *Rodriguez v. Suzuki Motor Corp.*, 936 S.W.2d 104, 109-111 (Mo. banc 1996); *Wollen v. DePaul Health Center*, 828 S.W.2d 681, 685 (Mo. banc 1992).

(7) Notice.

(A) At least ten (10) days prior to a local public hearing, or upon the filing of a notice that a local public hearing is not necessary, the utility shall mail a written notice, as approved by staff and the Office of the Public Counsel (OPC), to its customers stating ...

2. A summary of the proposed rates and charges, the effect of the proposed rate increase on an average residential customer's bill, and any other company requests that may affect customers, if known;

3. An invitation to submit comments about the utility's rates and quality of service within thirty (30) days after the date shown on the notice and instructions as to how comments can be submitted electronically, by telephone, and in writing; and

\* \* \*

(8) Investigation and audit. After a small utility rate case is opened, the staff shall, and the public counsel may, conduct an investigation of the utility's request.

(A) Staff's investigation may include a review of any and all information and materials related to the utility's cost of providing service and its operating revenues, the design of the utility's rates, the utility's service charges or fees, all provisions of the utility's tariffs, and any operational or customer service issues that are discovered during the investigation. The staff's audit and investigation will ensure reasonable consistency in the recommended rate treatment of the utility's rate base, revenue, and expenses with that of other similarly situated utilities.

\* \* \*

(D) Staff's investigation shall include an update of the utility's rate base.

(E) In determining the utility's cost of service, the value of normal expense items and plant-in-service and other rate base items, for which documentation is not available, may be

based upon such evidence as is available or may be estimated in order to include reasonable levels of those costs. Unusual expense or rate base items, or expense or rate base items for which the utility claims unusual levels of cost may require additional support by the utility. Nothing in this section diminishes the utility's obligation to adhere to the commission's rules regarding appropriate recordkeeping.

J. Witness credibility is solely a matter for the fact-finder, "which is free to believe none, part, or all of the testimony."<sup>23</sup>

K. An administrative agency, as fact finder, also receives deference when choosing between conflicting evidence.<sup>24</sup>

L. The Commission's interpretation of statutes within its purview are entitled to great weight.<sup>25</sup>

## **ISSUE 1 - ADVANCED METERING INFRASTRUCTURE**

### **Findings of Fact**

#### **AMI System & Benefits to Customers**

11. Raytown Water's Advanced Metering Infrastructure (AMI) consists of an Aclara AMI system with Neptune meters.<sup>26</sup>

12. Raytown Water plans to replace 6,811 existing meters with new Neptune mechanical water meters with Aclara end points, data collection units, and software.<sup>27</sup>

13. AMI will provide many benefits to the utility and its customers, which include:
- a. Increased billing accuracy and reduced likelihood of estimated bills due to weather events, personnel issues,

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<sup>23</sup> *State ex rel. Public Counsel v. Missouri Public Service Comm'n*, 289 S.W.3d 240, 247 (Mo. App. 2009).

<sup>24</sup> *State ex rel. Missouri Office of Public Counsel v. Public Service Comm'n of State*, 293 S.W.3d 63, 80 (Mo. App. 2009).

<sup>25</sup> *State ex rel. Sprint Mo., Inc. v. Pub. Serv. Comm'n of State*, 165 S.W.3d 160, 164 (Mo. banc 2005) (citing *Foremost-McKesson, Inc. v. Davis*, 488 S.W.2d 193, 197 (Mo. banc 1972)).

<sup>26</sup> Ex. 1, Thompson Direct, p. 2.

<sup>27</sup> Ex. 4, Noel Surrebuttal, pp. 3-4; Tr. Vol. 2, p. 79; Ex. 101, Foster Direct, Schedule KDF-d2, p. 3 of 9.

human error, or other obstacles by providing accurate reads without manual reading.<sup>28</sup>

- b. AMI also has the potential to provide the Company and, in turn, customers with a view of personal consumption more frequently than monthly, allowing identification of the timing of any unusually high usage.<sup>29</sup>
- c. Customers will be able to obtain their monthly usage, daily usage, billing and payment data online. Due to data storage needed to provide all 6,000 plus customers with immediate access to their hourly usage, customers will have to further request hourly usage reports from Raytown.<sup>30</sup>
- d. In the future, customers will be able to sign-up for automatic notifications for high usage.<sup>31</sup>
- e. Quicker resolution of high water bills due to access to hourly usage.<sup>32</sup>
- f. Freeing up personnel for other tasks.<sup>33</sup>

14. OPC contests that many of the benefits of AMI listed by Staff and Raytown Water are either not new benefits to the customers, will not materialize, or the benefit does not justify the cost per customer of the AMI system.<sup>34</sup>

#### **Factors that Contributed to Selecting AMI**

15. During 2023, approximately 59% of the 5/8-inch or 3/4-inch meters and 96% of 1-inch or larger meters would be due to be removed for testing.<sup>35</sup>

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<sup>28</sup> Ex. 1, Thompson Direct, p. 5; Tr. Vol. 2, pp. 51-53.

<sup>29</sup> Ex. 1, Thompson Direct, p. 5.

<sup>30</sup> Ex. 1, Thompson Direct, p. 5; Tr. Vol. 2, pp. 53-55.

<sup>31</sup> Ex. 1, Thompson Direct, p. 5.

<sup>32</sup> Tr. Vol. 2, pp. 67-69.

<sup>33</sup> Ex. 105, Williams Direct, pp. 5-7.

<sup>34</sup> Ex. 216, Marke Rebuttal, pp. 2-6.

<sup>35</sup> Tr. Vol. 2, p. 41.

16. Manufacturers have generally moved beyond direct read meters. New meters are usually Automated Meter Reading (AMR) or AMI.<sup>36</sup> Specifically, Neptune no longer offers direct read meters.<sup>37</sup>

17. The Company has tested several other meters, such as Zenner, Master Meter, ABB, Octave, Sensus and Badger, in their system over the past 10 years and found that Neptune has been the most reliable meter for the price.<sup>38</sup>

18. One employee being out on leave for any reason has a significant impact on the billing and meter reading process. Due to the time-sensitive nature of the billing and meter reading process, the Company has to pull personnel from the field crew to read meters. When the field crew must read meters, field work, such as fixing holes after water main breaks or fixing leaks, is impacted.<sup>39</sup>

19. Raytown Water employs 16 full-time employees and 18 seasonal employees.<sup>40</sup>

20. The number of customer complaints received by Raytown Water due to high water bills varies depending on the time of the year. However, the time it takes to resolve these complaints vary by customer regardless of the time of year.<sup>41</sup>

21. In Raytown Water's experience, it is easier to explain high water bills when there is a visual to show customers their hourly usage. With AMI, the Company can show normal hourly usage during the day and then compare it to the hourly usage when the customer is typically sleeping early in the morning. If there is still high hourly usage early

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<sup>36</sup> Ex. 2, Thompson Rebuttal, p. 8.

<sup>37</sup> Ex. 2, Thompson Rebuttal, Schedule CT-1-R.

<sup>38</sup> Ex. 1, Thompson Direct, p. 7.

<sup>39</sup> Tr. Vol. 2, pp. 57-58.

<sup>40</sup> Ex. 6, Clevenger Rebuttal, p. 4.

<sup>41</sup> Tr. Vol. 2, pp. 67-69.

in the morning, the AMI data can show that there is water running, which assists in the complaint resolution process.<sup>42</sup>

### **Selection and Contracting Process**

22. OPC contends that the Company did not conduct an independent cost benefit analysis, perform a competitive bid, or check vendors for different prices.<sup>43</sup>

23. Raytown Water testified that several years ago they began speaking with other water utilities to explore what meter reading system might be best suited for Raytown Water's operation and that could also provide more customer service options in the future.<sup>44</sup>

24. Raytown Water attended seminars to learn about what other water meter companies, such as Itron, Sensus, Mueller or Neptune, were doing with their AMI systems. The Company testified that attending these conferences was an easy way to obtain information to compare different products from different vendors. In addition, during these conferences, Raytown Water spoke to other utilities to find out the type of meter systems they were using and the advantages and disadvantages of the respective systems.<sup>45</sup>

25. As for AMI software, Aclara was the most user friendly and adaptable to the Company's present system.<sup>46</sup>

26. The Aclara software is being used by Missouri-American Water Company, the City of Kansas City, the municipality of Concordia, Missouri, and many other small and large water utilities nationwide.<sup>47</sup>

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<sup>42</sup> Tr. Vol. 2, pp. 69.

<sup>43</sup> Ex. 200, Marke Direct, p. 11.

<sup>44</sup> Ex. 1, Thompson Direct, p. 3.

<sup>45</sup> Tr. Vol. 2, pp. 58-59.

<sup>46</sup> Ex. 1, Thompson Direct, p. 7.

<sup>47</sup> Ex. 1, Thompson Direct, p. 7.



27. Both the Neptune meters and the Aclara software work hand-in-hand with Raytown Water's current Tower Maintenance Vendor, and USG Water Solutions a/k/a Utility Service Company, Inc. (USG) also provided the opportunity for a discount on the installation of the system.<sup>48</sup>

28. Prior to selecting USG to be its AMI provider, Raytown Water talked to approximately five different water companies.<sup>49</sup>

29. Raytown Water requested USG and Aclara to provide a bid.<sup>50</sup>

30. USG, as Raytown Water's contractor, provided different quote comparisons of the different meter vendors in order for the Company to assess the difference between a Neptune meter system and a Mueller system. However, Raytown Water's experience with Mueller has been that they are less reliable.<sup>51</sup>

31. Raytown Water has had a long and satisfactory relationship with USG.<sup>52</sup>

32. Raytown Water testified that USG's philosophy is consistent with the Company's of being prudent and good stewards with its assets, its vendors, and its contractors. With USG's existing experience doing utility maintenance on Raytown Water's towers and above-ground storages, the Company testified that USG has always been very easy and very reasonable to work with.<sup>53</sup>

33. The proposal from USG for the AMI project and meter maintenance program was accepted by Raytown Water on September 28, 2022, subsequent to the Commission's authorization order in File No. WF-2021-0427.<sup>54</sup>

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<sup>48</sup> Ex. 1, Thompson Direct, p. 7.

<sup>49</sup> Tr. Vol. 2, p. 60.

<sup>50</sup> Tr. Vol. 2, p. 62.

<sup>51</sup> Tr. Vol. 2, p. 62.

<sup>52</sup> Ex. 1, Thompson Direct, p. 7.

<sup>53</sup> Tr. Vol. 2, pp. 63-64.

<sup>54</sup> Tr. Vol. 2, pp. 95-96; Ex. 403C, USG contract.

### **AMI Contractor's experience and their responsibilities**

34. USG has been in the water industry since the 1960s and has been responsible for managing and maintaining various water system assets, including water quality and metering. The proposal was initially signed by Raytown Water in September 2021.<sup>55</sup>

35. Under its contract with Raytown Water for its AMI system, USG is responsible for monitoring, managing and maintaining Raytown Water's AMI system, which includes all of the Neptune meters, Aclara equipment, software, and its components they have installed.<sup>56</sup>

36. Under the AMI contract, USG will likely provide field maintenance to Raytown Water from USG's Kansas City service center.<sup>57</sup>

37. The performance guarantee under the contract with USG is to monitor every meter every day and guarantee at least 98.5% accuracy of the AMI-provided usage information over a three-day period. USG would automatically dispatch a field crew from its service center to Raytown Water if the accuracy of the reads drops to 99% or below.<sup>58</sup>

### **Similarly Sized and Densely Populated Systems**

38. OPC argued that AMI was not appropriate for Raytown Water due to its small size and small territorial area.<sup>59</sup>

39. USG's witness testified that in the state of Missouri there are a number of small systems using AMI. In particular, the cities of: Lamont has 500 water meters;

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<sup>55</sup> Tr. Vol. 2, p. 78.

<sup>56</sup> Ex. 2, Thompson Rebuttal, pp. 5-6; Tr. Vol. 2, p. 81.

<sup>57</sup> Tr. Vol. 2, p. 83.

<sup>58</sup> Tr. Vol. 2, pp. 83-84.

<sup>59</sup> Ex. 200, Marke Direct, p. 6.

Lockwood has 500 water meters; Concordia has approximately 1,200 meters, and Richmond has approximately 2,000 meters.<sup>60</sup>

40. Some examples of densely-populated utility service areas that are using AMI include: Sidney, Ohio; Mansfield, Ohio; and Vail, New Jersey.<sup>61</sup>

### **Status of System Installation**

41. As of June 30, 2023, USG had installed 3,073 AMI meters for Raytown Water.<sup>62</sup>

42. OPC testified that as of September 30, 2023, only approximately 300 AMI meters remain to be installed for Raytown Water.<sup>63</sup>

43. USG testified that as of the date of the hearing, November 17-18, 2023, the installation of the system was near completion.<sup>64</sup>

44. Raytown Water's installation of 3,073 of 6,811 meters equals 45.12% being in service as of June 30, 2023.<sup>65</sup>

45. Staff included 45.12%, or \$1,746,097, of the total AMI cost in its calculation of the rate base (plant in use).<sup>66</sup>

### **Conclusions of Law**

M. Commission Rule 20 CSR 4240-10.030(38) provides that meters are to be removed, inspected and tested or replaced every four to ten years, depending on the meter size.

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<sup>60</sup> Tr. Vol. 2, pp. 79-80.

<sup>61</sup> Tr. Vol. 2, p. 80.

<sup>62</sup> Ex. 101, Foster Direct, Schedule KDF-d2, p. 3 of 9.

<sup>63</sup> Ex. 206, Riley Surrebuttal, p. 2.

<sup>64</sup> Tr. Vol. 2, pp. 82-83.

<sup>65</sup> Ex. 110, Niemeier Rebuttal, pp. 6-7.

<sup>66</sup> Ex. 110, Niemeier Rebuttal, pp. 7-9; and Ex. 101, Foster Direct, Schedule KDF-d3, Accounting Schedule 5, page 1 of 2.

## Issues Presented by the Parties

- a. How should this AMI investment be treated for rate making purposes?*
- b. Should the Commission grant a return on the AMI investment?*
- c. Should the Commission include all known and measurable AMI investments that the Company has either in service or in inventory in rate base?*

## Decision

The decision to install AMI meters was a prudent decision given the information presented in support of and against the decision. Raytown Water does not currently have the option to replace its existing Neptune manually-read meters with similar meters as Neptune no longer manufactures manually-read water meters. Therefore, automatically read meters were the only Neptune meter option available to the Company.

Even though Raytown Water did not issue a formal request for proposals as would have been preferred, it engaged in reasonable activities and relied on past experiences to support its final selection. This included evaluating different metering system options, attending conferences and seminars, and speaking to other utilities to find out what type of meters they use and their experiences with them. Over the years, Raytown Water also tested different types of meters, and most recently assessed the compatibility of the different AMI software systems with the Company's existing software system. Raytown Water also weighed the existing working relationship and performance of USG. Furthermore, it relied on USG to price two types of meters (Neptune and Mueller) and weighed its experience with those brands in selecting its AMI meters system.

While all of the anticipated potential AMI benefits to customers may not materialize, the Commission finds that AMI meters provide operational and customer benefits to Raytown Water. Specifically, the Commission finds that those benefits include:

- increased billing accuracy due to increased meter reads;
- a more granular view of water consumption; the ability – even if not yet realized – of customers to view or otherwise be informed of their usage in increments of time other than the monthly meter read;
- the ability – even if not yet realized – of customers to receive automatic notifications of high water usage;
- the ability – even if not yet realized – of customers to be shown more granular water usage data than monthly in order to assist in resolution of customer complaints;
- freeing up personnel for other tasks;
- makes the task of meter reading easier;
- prevents the field crew from being diverted to meter reading;
- notification of usage indicating a potential leak is communicated to the Company; and
- notification of usage indicating a potential leak can be communicated to the customer.

The Commission finds that the above discussed AMI benefits outweigh their cost. The number of AMI meters installed and in service as of the end of the update period, June 30, 2023, represent 45.12% of the total number of AMI meters to be installed. Therefore, the Commission authorizes that 45.12% of the total cost of the AMI meters, \$1,746,097, be included in plant in service and rate base.

Given the prudence of Raytown Water's decision and actions in the implementation of AMI, the Commission finds that it is appropriate to allow Raytown Water an opportunity to earn a return on the AMI investment included in rate base as of the end of the update period and return of that investment through depreciation expense. This is consistent with the Commission's treatment of any plant addition considered to be a prudent investment

that is otherwise just and reasonable. It is anticipated that Raytown Water's next rate case will include a request for recovery of the remaining AMI meter costs once the installation of the meters has been completed. No evidence was presented to indicate that Raytown Water will maintain an inventory of AMI meters.

## **ISSUE 2 - LATE FEES**

### **Findings of Fact**

46. Raytown water charges a late fee of \$5 or 1%, whichever is greater.<sup>67</sup>

47. Raytown Water's monthly delinquent accounts typically average over 25% of their total customer accounts.<sup>68</sup>

48. The Commission authorized elimination of late fees for Missouri-American Water Company and Confluence Rivers Utility Company, which are both larger utility companies when compared to Raytown Water. They also 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. Raytown Water is a small utility, locally owned and operated with much smaller economic resources than the larger water companies in Missouri.<sup>69</sup>

49. The late fees are an incentive to encourage customers to pay on time and keep revenue flowing.<sup>70</sup>

50. It is Raytown Water's experience that late fees encourage customers to pay in a timely manner. The number of delinquent bills would increase without late fees.<sup>71</sup>

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<sup>67</sup> Ex 200, Marke Direct, p. 17.

<sup>68</sup> Ex. 214, Data Request (DR) 0007; and Tr. Vol. 2, p. 208.

<sup>69</sup> Ex. 106, Clark Rebuttal, p. 3.

<sup>70</sup> Ex. 106, Clark Rebuttal, p. 3.

<sup>71</sup> Ex. 2, Thompson Rebuttal, p. 9.

51. An amount of \$93,090 of late fee revenues has been included in Raytown Water's revenue requirement.<sup>72</sup>

52. An increase in delinquent bills could result in additional costs if the disconnect/reconnect process were required to be implemented.<sup>73</sup>

53. Staff's position is that late paying customers should be subject to a late fee versus an entire customer base having their base rates increased to make up for the revenues that the late payers provide.<sup>74</sup>

54. The \$5 late fee was first proposed in Raytown Water's 2009 rate case, File No. WR-2009-0098.<sup>75</sup>

55. The cost to mail a delinquent notice is \$1.14 at a minimum.<sup>76</sup>

56. An additional notice is sent for disconnections.<sup>77</sup>

57. Late paid bills increase workload for disconnections and delay revenue collection, impacting Raytown Water's ability to pay its bills.<sup>78</sup>

### **Conclusions of Law**

N. Commission Rule 20 CSR 4240-10.040 (3) states in pertinent part as follows:

No utility shall discontinue the service of any customer for violation of any rule of that utility except on written notice of intention to discontinue service. This notice shall state the reason for which service will be discontinued, specify a date after which the discontinuance may be effected and shall be mailed to or served upon the customer not less than forty-eight (48) hours prior to that date. ....

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<sup>72</sup> Ex. 2, Thompson Rebuttal, p. 10.

<sup>73</sup> Ex. 2, Thompson Rebuttal, pp. 10-11.

<sup>74</sup> Tr. Vol. 2, p. 211.

<sup>75</sup> Ex. 201, Marke Surrebuttal, p. 22.

<sup>76</sup> Ex. 201, Marke Surrebuttal, pp. 22-23.

<sup>77</sup> Ex. 2, Thompson Rebuttal, p. 10.

<sup>78</sup> Tr. Vol. 2, pp. 217-218.

## **Issue Presented by the Parties**

*Should the Commission eliminate or reduce late fees?*

## **Decision**

Small utilities without parent companies face more cash flow issues than large utilities because of their limited capital resources. They are therefore more dependent on the timely collection of revenues to cover their operating costs. Charging a late fee for bills paid after the due date contributes to timely collection of revenues.

The cost to mail a late notice does not capture all the costs that result from late paying customers. Late paying customers increase collection costs and may lead to increased disconnection costs. Late paying customers also reduce timely revenue collection that supports the Company's ability to pay its bills on time. There was no evidence provided to quantify these additional costs associated with late paying customers, but none the less, evidence does support the conclusion that there are in fact additional costs resulting from customers paying late.

Raytown Water has been collecting its \$5 late fee from customers since its 2009 rate case. In recent years approximately 25% of Raytown Water's customers have been paying their water bill after the due date. A reduction in or elimination of the late fee would likely lead to even more late paying customers and an increase in related costs. The Commission finds the continuation of Raytown Water's late fee for delinquent customer water bills of \$5 or 1% of the water bill, whichever is greater to be just and reasonable.

## **ISSUE 3 - DEPRECIATION**

### **Findings of Fact**

58. Staff removed the depreciation reserve accruals that exceeded the original plant investment value for Account 346.1 Meters- Bronze Chamber, Account 395



Laboratory Equipment, Account 396 Power Operated Equipment, and Account 397 Communication Equipment in its accounting schedules filed with the Disposition Agreement.<sup>79</sup>

59. For the fully-accrued accounts, Staff and the Company agreed to shut depreciation off, so those accounts would not have any accrual or expense after this Commission order becomes effective.<sup>80</sup>

60. Staff made the adjustments because it neglected in its initial review of Raytown Water to transfer the over recovery amounts to other depreciation reserve accrual accounts that are not over accrued. These adjustments restore the amount that ratepayers have overpaid for some assets by transferring those amounts to other accounts, thus making the ratepayer whole.<sup>81</sup>

61. Staff has applied the depreciation reserve over recovery to Account 346.2 Meters-\$3,549 and Account 390 Structures and Improvements-GP-\$48,010. The impact of these adjustments increasing accumulated depreciation and reducing net rate base, is a reduction to the revenue requirement.<sup>82</sup>

62. Gross salvage is the amount recorded for the property retired due to the sale, reimbursement, or reuse of the property. Net salvage is the gross salvage for the retired property less its cost of removal. Cost of removal is the cost to demolish, dismantle, tear down, or otherwise remove plant from service, including the cost of handling and transportation.<sup>83</sup>

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<sup>79</sup> Ex. 202, Robinett Direct, p. 9.

<sup>80</sup> Ex. 202, Robinett Direct, p. 11.

<sup>81</sup> Ex. 110, Niemeier Rebuttal, p. 3.

<sup>82</sup> Ex. 116, Niemeier Surrebuttal, p. 2; and Ex. 101, Foster Direct, Schedule KDF-d2, Staff Accounting Schedules.

<sup>83</sup> Ex. 202, Robinett Direct, p. 3.

63. Positive net salvage results when the salvage value exceeds removal costs. Negative net salvage results when removal costs exceed the salvage value. Positive net salvage decreases the cost to be recovered through depreciation expense and negative net salvage increases it.<sup>84</sup>

64. As of June 30, 2023, Raytown Water had placed 3,073 of the AMI meters in service, or 45.12% of the total 6,811 AMI meters required for its water system.<sup>85</sup>

65. In general terms, the Uniform System of Accounts (USoA) requires that plant be used and useful before it is included in plant in service.<sup>86</sup>

66. Plant in service less accumulated depreciation reserve is included in rate base. Plant in service is depreciated over its useful life.<sup>87</sup>

67. A total of four trucks were sold in 2023 prior to the end of the update period, June 30, 2023, and one truck was sold in 2022.<sup>88</sup>

68. Three of the trucks were retired from field use due to being in constant need of repair. Each of those trucks were sold to third parties for less than \$1,000. The other truck sold was primarily driven by Mr. Clevenger and was well maintained. It sold to a third party for \$3,000.<sup>89</sup>

69. Staff made an adjustment to depreciation expense for the plastic meters (Account 346.000) by reducing its annual depreciation by 45.12% as an offset for the inclusion of the depreciation for the installed AMI meters.<sup>90</sup>

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<sup>84</sup> Ex. 202, Robinett Direct, p. 4.

<sup>85</sup> Ex. 110, Niemeier Rebuttal, p. 7.

<sup>86</sup> Ex. 110, Niemeier Rebuttal, p. 7.

<sup>87</sup> Ex. 100, Foster Direct, Accounting Schedules.

<sup>88</sup> Ex. 211C, Schaben Surrebuttal, Schedule ADS-S-1.

<sup>89</sup> Tr. Vol. 2, pp. 143-145.

<sup>90</sup> Ex. 101, Foster Direct, Schedule KDF-d2, p. 4 of 9.

## Conclusions of Law

O. All water and sewer utilities under the jurisdiction of the Commission are required by 20 CSR 4240-50.020 (1) and 20 CSR 4240-61.020 (1) to follow the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USoA) for Class A & B Water (1973) for their designated class. The following accounts relate to depreciation and are applicable to Raytown Water.

108. Accumulated Provision for Depreciation of Utility Plant in Service.

B. At the time of retirement of depreciable utility plant in service this account shall be charged with the book cost of the property retired and the cost of removal, and shall be credited with the salvage value and any other amounts recovered, such as insurance.

403. Depreciation Expense.

A. This account shall include the amount of depreciation expense for all classes of depreciable utility plant in service except such depreciation expense as is chargeable to clearing accounts or to account 416. Costs and Expenses of Merchandising, Jobbing, and Contract Work.

B. The utility shall keep such records of property and property retirements as will reflect the service life of property which has been retired and aid in estimating probable service life by mortality, turnover or other appropriate methods; and also such records as will reflect the percentage of salvage and cost of removal for property retired from each account, or subdivision thereof, for depreciable utility plant.

## Issue Presented by the Parties

*a. Reserve Transfer*

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

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

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

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

### **Decision**

The Commission authorizes that the amounts by which certain plant account depreciation reserves were over-accrued be transferred to the plant accounts that are not fully-accrued as recommended by Staff and agreed to by OPC and the Company. This results in removal of accumulated depreciation reserve amounts from Accounts 346.1, Meters-Bronze Chamber; 395, Laboratory Equipment; 396, Power Operated Equipment; and 397, Communications Equipment for a total of \$51,559. This amount will be transferred to the depreciation reserve of Accounts 346.2, Meter-Hot Rod in the amount of \$3,549 and 390, Structures and Improvements-General Plant in the amount of \$48,010. The impact of these adjustments from Staff's disposition agreement will be to decrease net rate base by \$51,559.

The Commission authorizes a reduction in the depreciation expense of plastic meters by 45.12%. As of the end of the update period in this rate case, June 30, 2023, Raytown Water had replaced 45.12% of its existing water meters with AMI meters. It is therefore appropriate to discontinue depreciation on the plastic meters that are no longer in service. It is also appropriate to include in the revenue requirement the depreciation expense on the 3,073 AMI meters that were in service as of June 30, 2023. Depreciation expense is recoverable only on plant in service that is used and useful.

The Commission authorizes that the positive salvage value or sale price of the trucks sold by Raytown Water during 2022 through June 30, 2023, be added to the depreciation reserve for the transportation equipment Account, 392. This will allow customers to benefit from the proceeds of the truck sales and is consistent with the USoA.

The sales of trucks were to third parties and therefore the transactions were representative of the market value of the trucks sold. Raytown Water indicated that all but one of the trucks sold were no longer being driven on a daily basis because of the need for constant repair. There was no evidence provided to support any other value than what was actually paid for the trucks that were sold.

#### **ISSUE 4 - CUSTOMER NOTICE**

##### **Findings of Fact**

70. The difference in the rate requested by the Company is approximately half of that set forth in the Disposition Agreement, a 14% requested increase was noticed to customers versus a 27% increase proposed later in the Disposition Agreement.<sup>91</sup> Raytown Water requested an increase of \$735,103, while the Disposition Agreement proposed \$1,174,782.<sup>92</sup>

71. OPC recommended that the Commission require Raytown Water to send a second bill insert notifying customers of the larger increase than was stated in the original notice.<sup>93</sup>

72. OPC admitted that a second notice was going to be sent to customers no matter what the actual rate increase would be.<sup>94</sup>

73. OPC also recommended a second local public hearing given that more is now known about the potential rate.<sup>95</sup>

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<sup>91</sup> Ex. 202, Robinett Direct, p. 5.

<sup>92</sup> Ex. 111, Spratt Rebuttal, p. 8.

<sup>93</sup> Ex. 202, Robinett Direct, p. 5.

<sup>94</sup> Tr. Vol. 3, pp. 376-377.

<sup>95</sup> Ex. 202, Robinett Direct, p. 5.

74. The first notice sent on May 5 by the Company to its customers stated that the information comparing the current and proposed rates “reflect estimates based on the amount of the Company’s requested increase only. The new rates and their effects on customers’ bills have not yet been determined.”<sup>96</sup>

75. Customers will receive a final customer notice at the end of this rate case letting them know the new rate and its financial impact on the average customer.<sup>97</sup>

76. OPC’s testimony on the need for an additional local public hearing centered on its disagreement with the Commission Rules’ requirement that a local public hearing be held within the first 60 days of the case being filed.<sup>98</sup>

77. OPC’s initial brief conceded that its requested additional notice would be moot.<sup>99</sup>

78. OPC’s initial brief acknowledged the focus of its concern is with the Commission’s Staff assisted rate case rule and the timing of the local public hearing within 60 days.<sup>100</sup>

79. OPC’s initial brief argued that the spirit of the Commission’s rule requiring customer notice and a local public hearing within 60 days was violated as the customers were not adequately informed before they were given the opportunity to give comments.<sup>101</sup>

80. OPC’s initial brief argued for the amendment of the Staff assisted rate case rule to include a second notice and a second opportunity for comment.<sup>102</sup>

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<sup>96</sup> Ex. 6, Clevenger Rebuttal, pp. 3-4.

<sup>97</sup> Ex. 111, Spratt Rebuttal, p. 8.

<sup>98</sup> Ex. 203, Robinett Surrebuttal, pp. 12-13.

<sup>99</sup> The Office of the Public Counsel’s Initial Post-Hearing Brief, filed December 7 at 3:48 p.m., p. 51.

<sup>100</sup> The Office of the Public Counsel’s Initial Post-Hearing Brief, filed December 7 at 3:34 p.m., p. 51.

<sup>101</sup> The Office of the Public Counsel’s Initial Post-Hearing Brief, filed December 7 at 3:48 p.m., pp. 53-54.

<sup>102</sup> The Office of the Public Counsel’s Initial Post-Hearing Brief, filed December 7 at 3:48 p.m., p. 54.

## Conclusions of Law

P. The Commission's Rule setting forth the procedures for Staff assisted rate cases are found in 20 CSR 4240-10.075. Several pertinent subsections follow:

(6) Local public hearing. A local public hearing shall be scheduled to occur no later than sixty (60) days after the opening of the case unless staff files a notice in the case stating that all parties agree a local public hearing is not necessary.

(7) Notice.

(A) At least ten (10) days prior to a local public hearing, or upon the filing of a notice that a local public hearing is not necessary, the utility shall mail a written notice, as approved by staff and the Office of the Public Counsel (OPC), to its customers stating ...

2. A summary of the proposed rates and charges, the effect of the proposed rate increase on an average residential customer's bill, and any other company requests that may affect customers, if known;

3. An invitation to submit comments about the utility's rates and quality of service within thirty (30) days after the date shown on the notice and instructions as to how comments can be submitted electronically, by telephone, and in writing; and

\* \* \*

(14) The commission must set just and reasonable rates, which may result in a revenue increase more or less than the increase originally sought by the utility, or which may result in a revenue decrease.

Q. Section 536.016, regarding the requirements for rulemaking, states as follows:

1. Any state agency shall propose rules based upon substantial evidence on the record and a finding by the agency that the rule is necessary to carry out the purposes of the statute that granted such rulemaking authority.

2. Each state agency shall adopt procedures by which it will determine whether a rule is necessary to carry out the purposes of the statute authorizing the rule. Such criteria and rulemaking shall be based upon reasonably available empirical data and shall include an assessment of the effectiveness and the cost of rules both to the state and to any private or public person or entity affected by such rules.

3. Each state agency shall make publicly available proposed rules on the home page of its official internet website by providing a hyperlink entitled "proposed rules". This hyperlink shall grant access to an internet page which shall provide the following information for each proposed rule within one business day of when such rule is published in the Missouri Register:

(1) The text of the proposed rule as filed with the secretary of state pursuant to section 536.021, including any fiscal notes;

(2) A summary which shall be a concise statement not exceeding one hundred words using language neither intentionally argumentative nor likely to create prejudice either for or against the proposed rule; and

(3) A direct hyperlink to the full text of the proposed rule located in the Missouri Register and all material incorporated by reference on the secretary of state's website.

#### **Issues Presented by the Parties:**

*In what instance should the Company send additional notice of a proposed rate increase that differs from the original, noticed rate increase?*

#### **Decision**

OPC requested that the Commission order an additional notice to customers regarding the proposed rates in the Disposition Agreement, as well as requested a second local public hearing. The initial brief of OPC acknowledged the request for a second notice was moot. The Commission agrees.

The Commission finds that in the present case, an additional notice of proposed rates would be extraneous as there will be a final notice of the awarded rates and its average impact. OPC's request for a second notice is denied.



Testimony from OPC also requested a second local public hearing. The Commission followed the procedure set out in its rule regarding holding local public hearings which requires a local public hearing be held within 60 days of the filing of a Staff assisted rate case. Because of the substantial difference between the originally proposed rates and the rates proposed in the Disposition Agreement, the Commission acknowledges the facts of this case made the local public hearing timing problematic. However, holding a second local public hearing at this point in the proceeding would not be helpful as after the close of the evidence the Commission could not consider the comments of the general public from the second local public hearing in deciding the rate case. Further, as stated above, the ratepayers will receive notice of the rate increase.

Lastly, OPC affirmatively stated in its initial brief that it was seeking a change to the underlying rule regarding customer notice and local public hearings in Staff assisted rate cases. The Commission agrees that this case has demonstrated an instance where the rule requiring a local public hearing within 60 days of the filing of a Staff assisted may need to be reviewed and amended. The Commission will review the rule. OPC may also file a petition for a rulemaking to pursue those changes. However, changing the rule is not a remedy available within the present case, as rule changes are restricted to a rulemaking case following Chapter 536 (RSMo) rulemaking procedures.<sup>103</sup> OPC's request for the Commission to direct a second local public hearing is denied.

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<sup>103</sup> Rulemaking procedures are located at Commission Rule 20 CSR 4240-2.180.

## ISSUE 5 - DISTRIBUTION MAINS OPERATIONS AND MAINTENANCE

### Findings of Fact

81. Raytown Water purchases all of its water supply from the City of Kansas City, Missouri.<sup>104</sup>

82. Over the last 24 months, Raytown Water sold more water than the Kansas City master meters indicated it had purchased during the months of June-November 2021, February-July 2022, and February-May 2023.<sup>105</sup>

83. Given the unreliable nature of the purchase data over the last two and a half years, it was difficult to calculate a water loss percentage for this rate case. Raytown Water used the water loss percentage (12.04%) agreed to in its last rate case.<sup>106</sup>

84. OPC argued that if water losses are high, it may be expected that repair and maintenance expenses will be high because of the need to fix the causes of the water losses.<sup>107</sup>

85. Raytown Water's water loss is calculated as a percentage of the difference in water purchased from the Kansas City and water sold, divided by the total gallons bought.<sup>108</sup>

86. OPC compared the water losses going back to 2009 through the present, and identified three-year averages for 2017-2019 of 15.93% and for 2020-2022 of 5.58%.<sup>109</sup>

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<sup>104</sup> Ex. 5, Clevenger Direct, p. 6.

<sup>105</sup> Ex. 2, Thompson Rebuttal, p. 11.

<sup>106</sup> Ex. 2, Thompson Rebuttal, p. 12.

<sup>107</sup> Ex. 202, Robinett Direct, p. 6.

<sup>108</sup> Ex. 202, Robinett Direct, p. 7.

<sup>109</sup> Ex. 202, Robinett Direct, p. 7.

87. Since Kansas City has changed out all of their meters and Raytown Water is replacing all of their customer meters, the data collected at this point is more accurate and more reliable. Staff's assumption of a water loss of 12.04% is a relatively conservative estimate and a water loss calculation will be performed at the time of the Company's next rate case.<sup>110</sup>

88. It is not realistic for any drinking water distribution system of significant size to experience non-revenue water loss below 1%.<sup>111</sup>

89. Non-revenue water and operation and maintenance (O&M) expenses can be related. The correlation is based on the Company's response to water loss. If they do little to combat water loss, O&M expenses will be low. However, if the Company is actively combatting water loss by replacing mains and fixing leaks, then the O&M expenses are going to be greater.<sup>112</sup>

90. Raytown Water's O&M expenses are based on the Company's response to actively fixing water leaks and reducing water loss. These expenses grew over time due to the Company replacing mains and due to the increasing costs of goods and services experienced since 2020.<sup>113</sup>

91. The Company has experienced increasing main breaks and leaks in the years since its last rate case. The operation and maintenance costs have increased as a result of having to repair the additional main breaks and leaks.<sup>114</sup>

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<sup>110</sup> Ex. 112, Williams Rebuttal, p. 6.

<sup>111</sup> Ex. 112, Williams Rebuttal, p. 6.

<sup>112</sup> Ex. 112, Williams Rebuttal, p. 7.

<sup>113</sup> Ex. 112, Williams Rebuttal, p. 7.

<sup>114</sup> Tr. Vol. 2, p. 195.

92. Normalizing expenses is an analysis of expenses over a period of time to average the costs, if there were fluctuations in expenses from year to year.<sup>115</sup>

93. Costs associated with a water leak repaired with a patch are included as an operations and maintenance expense. If a larger section of pipe must be replaced to repair the water leak the costs are capitalized.<sup>116</sup>

94. Staff included an annual level of \$411,370 in Account 673 Maintenance of Transmission & Distribution Mains.<sup>117</sup>

### **Conclusions of Law**

No further Conclusions of Law were necessary for this section.

### **Issue Presented by the Parties**

*What value of non-labor operations and maintenance expense should be included for distribution mains?*

### **Decision**

Making a correlation between Raytown Water's water loss and the fluctuation in distribution mains' O&M expenses is not appropriate in this rate case because the purchased water amounts from Kansas City's master meters appear to have been inaccurate for much of the test year and update period. Any guess of water loss for that time from the last Raytown Water rate case is just that, a guess.

The Commission finds that neither the use of the water loss agreed to in Raytown Water's last rate case (12.04%) or OPC's calculation based on three-year averages (15.93% for the years 2017-2019 or 5.58% for the years 2020-2022) would be

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<sup>115</sup> Tr. Vol. 2, p. 181.

<sup>116</sup> Tr. Vol. 3, p. 316.

<sup>117</sup> Ex. 101, Foster Direct, Schedule KDF-d3, Accounting Schedule 9, p. 1.

appropriate to use to support an adjustment to the non-labor maintenance of transmission and distribution mains expense.

The overall costs for the maintenance of transmission and distribution mains have increased for Raytown Water since its last rate case. Raytown Water has also experienced an increased number of water main leaks over that same time period. When expenses are trending (either up or down), it is appropriate to use the last known expense amount in the revenue requirement. In contrast, if expenses fluctuate up and down without a clear trend over the period under review, then it is appropriate to use an average expense or to normalize the expense.

The Commission finds that Raytown Water has experienced increased non-labor maintenance of transmission and distribution main expenses in each year since its last rate case. The evidence that Raytown Water has experienced more leaks requiring repair in each year since its last rate case also supports the increase in expenses. Based on the evidence provided, the Commission finds that Staff's adjusted non-labor O&M expenses in the amount of \$411,370 are just and reasonable. The Commission directs that the \$411,370 be added to Account 673, Maintenance of Transmission and Distribution Mains to be included in Raytown Water's revenue requirement.

## **ISSUE 6 - RATE OF RETURN**

### **Findings of Fact:**

95. Staff employed the following principles as a guide in recommending a just and reasonable rate of return:

- A return consistent with returns on investments of comparable risk;
- A return that allows the utility to attract capital on reasonable terms; and

- A return sufficient to assure confidence in the utility's financial integrity.<sup>118</sup>

96. Staff employed its Small Utility Rate of Return Methodology for its authorized Return on Equity (ROE) estimation.<sup>119</sup>

97. The ROE, also referred to as the cost of common equity, is a market-determined, minimum return that investors are willing to accept for their investment in a company, compared to the return on other available investments.<sup>120</sup>

98. As Raytown Water does not have a public credit rating, Staff utilized the Standard & Poor's (S&P) Credit Ratings Guide to approximate Raytown Water's credit rating using its parameters for estimating credit ratings. To estimate credit ratings using the S&P Credit Ratings Guide, Staff examined the financial risk profile (FRP) and business risk profile (BRP) of Raytown Water. To examine the FRP and BRP of a small utility, Staff analyzed financial statements and ratios.<sup>121</sup>

99. According to a November 27, 2007, S&P Credit Ratings publication, regulated utilities and holding companies that are utility-focused virtually always fall in the upper range of business risk profile (Excellent or Strong). In addition, all water utilities currently rated by S&P are assigned a BRP of Excellent, due to their revenues being regulated. Staff's witness indicated that because Raytown Water is smaller than other major regulated water utilities rated by S&P, Staff's recommended a BRP of Strong, one notch lower than the Excellent assigned to water utilities by S&P, is appropriate for the Company.<sup>122</sup>

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<sup>118</sup> Ex. 102, Jennings Direct, p. 4.

<sup>119</sup> Ex. 102, Jennings Direct, p. 5.

<sup>120</sup> Ex. 102, Jennings Direct, p. 5.

<sup>121</sup> Ex. 102, Jennings Direct, p. 6.

<sup>122</sup> Ex. 102, Jennings Direct, p. 6.

100. For FRP, Raytown Water showed net operating incomes for 2021 and 2022 after showing net losses in 2019 and 2020. While net incomes indicate the company is operating in a sustainable manner, the Company's Debt to Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA) and Funds From Operations (FFO) to Debt ratios (5.74x and 10.89% respectively) both remain high. This reveals that the Company is still considered Highly Leveraged. Raytown Water's debt to capital ratio is 37.97%, and would be considered Intermediate. The combination of these factors led Staff to believe an FRP of Aggressive is appropriate for this rate case.<sup>123</sup>

101. Using a BRP and FRP of Strong and Aggressive, respectively, for Raytown Water, the S&P Credit Ratings Guide matrix indicated a credit rating of BB.<sup>124</sup>

102. In order to arrive at Staff's recommended ROE, Staff examined the three-month average yield on BB rated corporate bonds and BBB rated corporate bonds. The three-month averages (March – May of 2023) were 6.86% and 5.61% respectively with a difference of 125 basis points between the two investment ratings. The Mergent Bond Record indicated an average "Baa" Public Utility bond yield of 5.62% over the same time frame. Adding the difference between the two investment ratings (125 basis points) to this Public Utility bond yield average gives a total of 6.87%.<sup>125</sup>

103. Staff also applied a standard risk premium to this estimate of the current cost of debt to arrive at an estimated cost of equity. Staff used a risk premium of 3.5% (the mid-point of a risk premium range of 3.00% - 4.00%) added to the 6.87% cost of debt calculation to give an estimated ROE of 10.37%.<sup>126</sup>

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<sup>123</sup> Ex. 102, Jennings Direct, pp. 6-7.

<sup>124</sup> Ex. 102, Jennings Direct, p. 7.

<sup>125</sup> Ex. 102, Jennings Direct, pp. 7-8.

<sup>126</sup> Ex. 102, Jennings Direct, p. 8.

104. OPC testified that the intersection of Staff's assigned BRP of Strong and FRP of Aggressive indicates a BB+ credit rating. This represents a difference of one notch between Staff and OPC's estimated credit rating.<sup>127</sup>

105. A difference of one notch in a credit rating is more significant between an investment grade rating category (the cut-off for investment grade is BBB-, the next notch down is BB+, which is below investment grade) and a non-investment grade rating category. For example, for the nine months ending on September 30, 2023, the average monthly spread between A and BBB-rated bonds was 46 basis points where the average monthly spread between BBB and BB-rated bonds was 115 basis points. Because there are three notches between each rating category (e.g. BBB, BBB-, BB+ and BB), a one notch rating differential between 'A' and 'BBB' is approximately 15 basis points (46 divided by three), whereas a one notch rating differential between 'BBB' and 'BB' is approximately 38 basis points (115 divided by three).<sup>128</sup>

106. OPC testified that a 42 basis point downward adjustment to Staff's 10.37% ROE is warranted to account for the difference between BB and BBB utility bond yields, which would lower the indicated ROE to 9.95%. OPC determined this adjustment by subtracting one-third of the 125 basis point spread between BB and BBB utility bond yields for the three months ending on May 31, 2023.<sup>129</sup>

107. OPC disagreed with Staff's use of historic credit metrics to determine Raytown Water's ROE. OPC argued that debt investors understand that the Company's past cash flow profile does not represent the expected cash flow profile subsequent to

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<sup>127</sup> Ex. 204, Murray Rebuttal, pp. 3-4.

<sup>128</sup> Ex. 204, Murray Rebuttal, p. 4.

<sup>129</sup> Ex. 204, Murray Rebuttal, p. 4.



rate adjustments from this case. Therefore, OPC argued that projected credit metrics would result in just and reasonable rates.<sup>130</sup>

108. OPC used the stipulated revenue requirement increase of \$1,174,782 and Staff's ratemaking income statement, attached to the Disposition Agreement. Raytown Water's FFO/debt ratio is expected to be 21.67%. This FFO/debt ratio is at the high end (i.e. less financial risk) of the FFO/debt ratio benchmark for a Significant FRP, which is one category higher than the FRP Staff assigned to Raytown Water. Combining a FRP of Significant with a Strong BRP results in an implied credit rating of BBB according to OPC.<sup>131</sup>

109. Although S&P assigns the most weight to the FFO/debt ratio, OPC also calculated the Company's pro forma debt/EBITDA and FFO/interest coverage ratios. Raytown Water's pro forma debt/EBITDA ratio of 3.63x is also consistent with the benchmarks for a BBB credit rating. Raytown Water's pro forma FFO/interest coverage ratio of 6.78x is consistent with a credit rating in the range of BBB+ to A-.<sup>132</sup>

110. A 3.5% equity risk premium added to a 'BBB' bond yield, implies a 9.12% cost of equity.<sup>133</sup>

111. If the ROE is reduced to 9.12% from 10.37%, Raytown Water's annual revenue requirement would be reduced by \$70,413.80. This reduced revenue requirement would lower Raytown Water's pro forma FFO/debt ratio to 20.19%, which is still consistent with a FRP of Significant and a BBB rating.<sup>134</sup>

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<sup>130</sup> Ex. 204, Murray Rebuttal, p. 5.

<sup>131</sup> Ex. 204, Murray Rebuttal, p. 5.

<sup>132</sup> Ex. 204, Murray Rebuttal, p. 5.

<sup>133</sup> Ex. 204, Murray Rebuttal, p. 5.

<sup>134</sup> Ex. 204, Murray Rebuttal, p. 6.

112. If the Commission authorized a 9.90% ROE, Raytown Water's pro forma FFO/debt ratio would be approximately 21.11%, which is still consistent with a BBB rating.<sup>135</sup>

113. The following factors support Staff's FRP of Aggressive and implied credit rating of BB:

- Raytown Water does not have an exclusive service territory – it overlaps in places with the service areas of the Jackson County Water District No. 2 and the City of Independence. This inhibits the Company from growing its customer base, which supports Staff's FRP of Aggressive and implied credit rating of BB;
- OPC has alleged that Raytown Water's management decisions appear to be questionable, noting the absence of a competitive request for proposal, independent cost benefit analysis, and lack of a formal competitive process all support the Staff's FRP of Aggressive and implied credit rating of BB; and
- Raytown Water will receive rate relief in this case; however, these additional revenues will be offset by payments due toward the Missouri Environmental Improvement and Energy Resource Authority ("EIERA bonds"), further supporting Staff's FRP of Aggressive and implied credit rating of BB.<sup>136</sup>

114. OPC testified that Raytown Water's outstanding principal on its loan from the EIERA Bonds has declined since March 1, 2023, and will continue to decline each year for the next 20 years. OPC argued that unless the Company issues more debt in subsequent periods, its credit metrics will continue to improve over time.<sup>137</sup>

115. OPC recommended the Commission authorize Raytown Water an ROE in the range of 9.12% to 9.90%.<sup>138</sup>

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<sup>135</sup> Ex. 204, Murray Rebuttal, p. 6.

<sup>136</sup> Ex. 114, Jennings Surrebuttal, pp. 8-9.

<sup>137</sup> Ex. 204, Murray Rebuttal, pp. 6-8.

<sup>138</sup> Ex. 204, Murray Rebuttal, p. 6.

## **Preferred Stock**

116. The Company issued preferred stock beginning in 2021. That preferred stock provided the option to be paid dividends at a rate tied to the prime rate per annum as reported each January 1 in the Wall Street Journal.<sup>139</sup>

117. The holder of the preferred stock will earn a dividend equal to the Wall Street Journal prime rate that is effective January 1 of each year.<sup>140</sup>

118. The rate paid changes every year.<sup>141</sup>

119. The prime rate on January 1, 2023, was 7.5%.<sup>142</sup>

120. The prime rate on January 1, 2022, was 3.25%.<sup>143</sup>

121. Raytown Water made dividend payments in 2023 based on the 7.5% prime rate.<sup>144</sup>

122. Staff testified that for the first two years, 2021 and 2022, the required interest rate was 3.25%. Beginning in 2023 the required interest rate had risen to 7.50%. As of July 27, 2023, the prime rate was 8.50%. With the prime rate at its highest in over 20 years, Raytown Water had to continue paying the required dividend payments, which further reduced its net income.<sup>145</sup>

123. Staff testified that OPC should have considered Raytown Water's preferred stock and the Company's management decisions when considering its FRP and implied credit rating for the following reasons:

- Raytown Water's application did not match the Corporate Resolution which resulted in required interest payments that could have been deferred; and

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<sup>139</sup> Ex. 114, Jennings Surrebuttal, p. 7.

<sup>140</sup> Tr. Vol. 2, pp. 152-153.

<sup>141</sup> Tr. Vol. 2, p. 153.

<sup>142</sup> Tr. Vol. 2, p. 153.

<sup>143</sup> Ex. 6, Clevenger Rebuttal, p. 13; Ex. 102, Jennings Direct, p. 9.

<sup>144</sup> Ex. 6, Clevenger Rebuttal, p. 13.

<sup>145</sup> Ex. 114, Jennings Surrebuttal, p. 7.

- There are now portions of the outstanding preferred stock that could be viewed as debt.
- Both of these can negatively impact Raytown Water's finances and credit metrics which would further support Staff's FRP of Aggressive and Staff's implied credit rating of BB.<sup>146</sup>

124. Staff testified that another effect Raytown Water's preferred stock had on its credit metrics and implied credit rating is that the Company issued preferred stock in 2021 (\$1,070,000), 2022 (\$790,000) and 2023 (\$713,495 as of April 17, 2023) totaling \$2,573,495. While preferred stock is an equity instrument, after two years holders of Raytown Water's preferred stock have a right to redeem them from the Company.<sup>147</sup> Due to this "redemption" option, the preferred stock could also be interpreted as debt. By the end of 2023, any shares of preferred stock issued in 2021 will be eligible to be redeemed. This increase in debt (\$1,070,000 issued in 2021) could negatively affect the credit metrics OPC relied upon for its implied BBB credit rating.<sup>148</sup>

125. OPC testified that it is not disputing the preferred stock cost of 3.25% that is contained in the Disposition Agreement and argued that it is not a litigable issue as it is undisputed by OPC.<sup>149</sup>

### **Capital Structure**

126. Although not an issue in this case, the parties agreed that Raytown Water's capital structure as of December 31, 2022, is composed of 47.20% equity, 14.82% preferred stock and 37.97% long-term debt.<sup>150</sup>

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<sup>146</sup> Ex. 114, Jennings Surrebuttal, p. 6.

<sup>147</sup> Ex. 114, Jennings Surrebuttal, pp. 7-8; Tr. Vol. 2, p. 127.

<sup>148</sup> Ex. 114, Jennings Surrebuttal, p. 8.

<sup>149</sup> OPC Initial Brief, p. 46.

<sup>150</sup> Ex. 101, Foster Direct, Schedule KDF-d3, p. 24.

## Conclusions of Law

R. In determining whether the rates proposed are just and reasonable, the Commission must balance the interests of the investor and the consumer.<sup>151</sup> In discussing the need for a regulatory body to institute just and reasonable rates, the United States Supreme Court has held as follows:

Rates which are not sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the services are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility company of its property in violation of the Fourteenth Amendment.<sup>152</sup>

In the same case, the Supreme Court provided the following guidance on what is a just and reasonable rate:

What annual rate will constitute just compensation depends upon many circumstances and must be determined by the exercise of a fair and enlightened judgment, having regard to all relevant facts. A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.<sup>153</sup>

The Supreme Court has further indicated:

‘[R]egulation does not insure that the business shall produce net revenues.’ But such considerations aside, the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital

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<sup>151</sup> *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603, (1944).

<sup>152</sup> *Bluefield Water Works & Improvement Co. v. Public Service Commission of the State of West Virginia*, 262 U.S. 679, 690 (1923).

<sup>153</sup> *Bluefield*, at 692-93.

costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.<sup>154</sup>

S. In undertaking the balancing required by the Constitution, the Commission is not bound to apply any particular formula or combination of formulas. Instead, the Supreme Court has said:

Agencies to whom this legislative power has been delegated are free, within the ambit of their statutory authority, to make the pragmatic adjustments which may be called for by particular circumstances.<sup>155</sup>

T. Furthermore, in quoting the United States Supreme Court in *Hope Natural Gas*, the Missouri Court of Appeals said:

[T]he Commission [is] not bound to the use of any single formula or combination of formulae in determining rates. Its rate-making function, moreover, involves the making of 'pragmatic adjustments.' ... Under the statutory standard of 'just and reasonable' it is the result reached, not the method employed which is controlling. It is not theory but the impact of the rate order which counts.<sup>156</sup>

## Issues Presented by the Parties

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

## Decision

The determination of a fair return on equity is guided by principles of economic and financial theory, as well as by certain minimum Constitutional standards. The United

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<sup>154</sup> *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) (citations omitted).

<sup>155</sup> *Federal Power Commission v. Natural Gas Pipeline Co.* 315 U.S. 575, 586 (1942).

<sup>156</sup> *State ex rel. Associated Natural Gas Co. v. Pub. Serv. Comm'n*, 706 S.W. 2d 870, 873 (Mo. App. W.D. 1985).

States Supreme Court has described the minimum characteristics of a Constitutionally-acceptable ROE in two frequently-cited cases: *Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia* and *Federal Power Commission v. Hope Natural Gas Co.* The principle of commensurate return is based on the concept of risk. The return Raytown Water's shareholders may expect is equal to that required by shareholders of comparable risk utility companies.

Using market data, cost of equity can be directly estimated. An authorized ROE, on the other hand, is a Commission-determined return granted to monopoly industries, allowing them the opportunity to earn just and reasonable compensation for their investments in the rate base. Stock market data cannot directly determine an authorized ROE. However, a just and reasonable authorized ROE anticipated by the financial market can be estimated by using rates of return on investments having similar risks. Therefore, Staff's recommendation of an authorized ROE, based on a cost of equity derived from the comparison of similar investments, is consistent with the principles set forth in *Bluefield* and *Hope*. However, the lower end of Staff's risk premium range, 3.0% is more in line with current markets and Raytown Water's market risk than Staff's 3.5% risk premium adjustment.

Raytown Water's rate of return is the total weighted-average cost of capital components in a utility company's capital structure. Raytown Water's capital components, in this case, consist of common equity, long-term debt, and preferred stock.

A 'cost', also referred to as a 'return', is assigned to each capital component. Raytown Water's cost of long-term debt is fixed at 3.75%. Raytown Water's cost of preferred stock fluctuates based on an interest rate not to exceed the prime rate per annum as reported each January 1 in the Wall Street Journal. Raytown Water's cost of

preferred stock is 3.25% as of December 31, 2022. However, the cost paid quarterly during 2023, including the update period ending June 30, 2023, was at 7.50%. Raytown Water's cost of common equity is a market-determined, minimum return that investors are willing to accept for their investment in a company, compared to returns on other similar investments.

A 9.90% ROE would allow Raytown Water a pro forma FFO/debt ratio that is consistent with a BBB rating, and is within the high end of OPC's recommended ROE range. Further, it is similar to Staff's recommended ROE, 9.87%, when the appropriate risk premium adjustment is applied.

The appropriate authorized ROE to be used to establish Raytown Water's rate of return is 9.90%. The appropriate dividend rate on preferred stock to be used to establish Raytown Water's rate of return is 7.50%.

## **ISSUE 7 - CASH WORKING CAPITAL**

### **Findings of Fact:**

127. Cash working capital (CWC) is a rate base component that represents a measurement of the amount of funds, on average, required for the payment of a utility's day-to-day expenses, as well as an identification of whether a utility's customers or its shareholders are responsible for providing those funds in the aggregate.<sup>157</sup>

128. A lead/lag study is used to determine the amount of CWC provided by both the ratepayers and shareholders. The lead/lag study involves analysis of the timing of when expenses are paid to suppliers, employees, etc., and when the utility receives revenues from customers for the services it provides. A positive CWC requirement indicates that the shareholders provided the working capital for the test year. This means,

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<sup>157</sup> Ex. 205, Riley Direct, p. 4.



on average, the utility paid the expenses incurred to provide the utility service to the ratepayers before the ratepayers paid for the service. A negative CWC requirement indicates that the ratepayers provided the working capital during the test year. This means, on average, the ratepayers paid for their utility service before the utility paid the expenses incurred to provide that service.<sup>158</sup>

129. In a CWC calculation, both a revenue lag and an expense lag are measured. The “lag” is the amount of time, usually in days, that it takes revenues to come in from the customer or the time it takes for the utility to pay out an expense.<sup>159</sup>

130. Customer payments are fairly homogenous and the revenue lag is a consistent multiplier in the calculation. In contrast, each expense component of the CWC calculation has a different payment schedule based on when the individual expense needs to be paid. As a result, the expense lag is different for each line item.<sup>160</sup>

131. In previous rate cases, the Staff has utilized CWC information developed in prior cases as well as surrogate lead/lag data to complete its current CWC calculations and the Commission has accepted CWC adjustments based on lead/lag studies and surrogates when supported by evidence.<sup>161</sup>

132. Small utilities typically do not have the resources to perform a CWC lead/lag study. The 150-day timeline of a Staff assisted small utility rate case limits the time available to perform the CWC analysis. Hiring a consultant would increase rate case costs to customers.<sup>162</sup>

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<sup>158</sup> Ex. 206, Riley Surrebuttal, Schedule JSR-S-3.

<sup>159</sup> Ex. 205, Riley Direct, p. 4.

<sup>160</sup> Ex. 205, Riley Direct, p. 4.

<sup>161</sup> Ex. 206, Riley Surrebuttal, p. 7, and schedule JSR-S-3.

<sup>162</sup> Ex. 110, Niemeier Rebuttal, pp. 4-5.

133. OPC did not create its own Raytown Water lead/lag study or independently establish the expenses included in the calculations. Rather, OPC relied on information from prior rate cases and Staff work-papers and accounting schedules specific to this case.<sup>163</sup>

134. Staff's testimony challenges the use of surrogate lead/lags from other cases in OPC's CWC schedule and also challenges whether a CWC study should be performed for any small utility during a Staff assisted small utility rate case.<sup>164</sup>

135. OPC developed its CWC schedule by using information from several sources. The individual account balances were extracted from the Cost of Service section of the Income Statement that Staff included or from its work-papers. The revenue and expense lag figures were gathered from the following cases: two prior Raytown Water Staff assisted rate cases, File Nos. WR-2015-0246 and WR-2020-0264; a prior Missouri-American rate case, File No. WR-2022-0303; and Confluence Rivers' rate case, File No. WR-2023-0006.<sup>165</sup>

136. OPC was not able to confirm how often Raytown Water employees are paid.<sup>166</sup>

137. OPC was not able to confirm the source of its CWC cash voucher expense lag.<sup>167</sup>

138. The OPC revenue lag of 43 days is consistent with the revenue lag of Missouri-American Water Company in rate case, File No. WR-2022-0303, which was then

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<sup>163</sup> Ex. 205, Riley Direct, p. 3.

<sup>164</sup> Ex. 110, Niemeier Rebuttal, pp. 4-5.

<sup>165</sup> Ex. 205, Riley Direct, p. 4.

<sup>166</sup> Tr. Vol. 3, p. 347.

<sup>167</sup> Tr. Vol. 3, p. 348.

used by Staff as a surrogate in the recent Confluence Rivers rate case, File No. WR-2023-0006.<sup>168</sup>

139. OPC reviewed and updated its CWC schedule in its surrebuttal testimony. OPC used the revenue lag of 43 days from a prior Raytown Water rate case, File No. WR-2015-0246. OPC also relied heavily on Staff's CWC work-paper from the Confluence Rivers' rate case, File No. WR-2023-0006.<sup>169</sup>

140. Staff's CWC work-papers from the Confluence Rivers rate case, File No. WR-2023-0006, included some CWC lags that were adopted by OPC and others that were not.<sup>170</sup>

141. Staff's CWC work-papers from Confluence Rivers' recent rate case, which OPC relied on in developing its Raytown Water CWC adjustment, indicated that OPC's cash voucher expense lag surrogate matches that of a specific water system. Other Confluence Rivers' water systems on the same staff CWC work-paper had lower cash voucher lags.<sup>171</sup>

142. OPC's updated CWC analysis calculates a negative \$145,388 adjustment to rate base resulting in a revenue requirement reduction of about \$12,000 before taxes.<sup>172</sup>

143. The test year income tax and interest expense amounts included in OPC's calculation of CWC are the same amounts included in Staff's accounting schedules.<sup>173</sup>

144. The column headings of Staff Accounting Schedule 8 identify the process to calculate the CWC. For each adjusted expense category described, a revenue and

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<sup>168</sup> Ex. 206, Riley Surrebuttal, Schedules JSR-S-2 and JSR-S-3.

<sup>169</sup> Ex. 206, Riley Surrebuttal, p. 8.

<sup>170</sup> Ex. 118C, Cash Working Capital Workpapers of Dhority from WR-2023-0006.

<sup>171</sup> Ex. 118C, Cash Working Capital Workpapers of Dhority from WR-2023-0006.

<sup>172</sup> Ex. 206, Riley Surrebuttal, p. 9.

<sup>173</sup> Ex. 206, Riley Surrebuttal, Schedule JSR-S-2; Ex. 101, Foster Direct, Staff Accounting Schedule 8.

expense lag is determined. The expense lag is subtracted from the revenue lag to calculate the net lag. The net lag is then divided by 365 to calculate the CWC factor. The CWC factor is multiplied by each specific test year adjusted expense amount to calculate the CWC requirements when added together.<sup>174</sup>

145. Staff used the billing and collection lags from Missouri-American Water Company's revenue lags from its most recent rate case, File No. WR-2022-0303, as surrogates in order to calculate Confluence Rivers' revenue lag in its most recent rate case, File No. WR-2023-0006.<sup>175</sup>

146. OPC's recommended revenue lag of 43 days is consistent with the revenue lag of Missouri-American Water Company in its rate case, File No. WR-2022-0303, which was also used by Staff as a surrogate in the recent Confluence Rivers rate case, File No. WR-2023-0006.<sup>176</sup>

147. Raytown Water monthly delinquent accounts average typically over 25% of their total customer accounts.<sup>177</sup>

148. The Company recorded taxable losses in both 2021 and 2022 for federal income tax purposes. The accelerated depreciation associated with the installation of the AMI meters in 2023 will most likely provide the Company with taxable losses for 2023.<sup>178</sup>

149. Raytown Water witness Thompson was not able to confirm that any federal income tax payments were made during 2023.<sup>179</sup>

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<sup>174</sup> Ex. 101, Foster Direct, Staff Accounting Schedule 8.

<sup>175</sup> Ex. 206, Riley Surrebuttal, Schedule JSR-S-3.

<sup>176</sup> Ex. 206, Riley Surrebuttal, Schedules JSR-S-2 and JSR-S-3.

<sup>177</sup> Ex. 214, DR 0007; and Tr. Vol. 2, p. 208.

<sup>178</sup> Ex. 205, Riley Direct, p. 5.

<sup>179</sup> Tr. Vol. 2, p. 109.

150. Because Raytown Water did not have taxable income in 2021 and 2022 and will most likely not have taxable income in 2023, OPC applied a 365-day expense lag for income taxes because while collecting income taxes in rates from customers, none of those dollars have been submitted to a taxing authority.<sup>180</sup>

### **Conclusions of Law**

No additional Conclusions of Law are necessary to this issue.

### **Issue Presented by the Parties**

*Should cash working capital be included in rate base?*

### **Decision**

Staff assisted small utility rate cases typically do not allow enough time to gather the data required for a CWC lead/lag study to be completed because of the condensed timeline. However, if a CWC lead/lag study is provided by any party in the case it should be considered. The question then is whether the CWC analysis performed by witness Riley in this rate case is appropriate to rely on and whether it justifies adjustment to rate base.

The time commitment required to complete a CWC lead/lag study specific to each utility makes the use of surrogate revenue and expense lags a viable option when those surrogates can be traced to litigated cases. Litigated cases give opportunities for all parties to file testimony challenging CWC components. The hearing offers opportunities for testimony corrections and further examination to challenge CWC testimony. The Confluence Rivers rate case, File No. WR-2023-0006, was litigated, although CWC was not an issue. Without that complete vetting of CWC, the Commission is reluctant to accept

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<sup>180</sup> Ex. 205, Riley Direct, p. 5.

a CWC expense or revenue surrogate as reliable without evidence indicating why that surrogate is appropriate.

Some lags are consistent over time and even between utilities (e.g., property tax, sales tax, PSC assessment). The use of CWC lags from prior rate cases as surrogates for completing a new CWC lead/lag study is acceptable when the surrogate CWC lead/lags have been authorized by the Commission via a contested case. A nexus should be identified between the surrogate utility company's lead/lags and what would be the actual lead/lags for the utility in the current rate case if the CWC lead/lags are to be considered as acceptable surrogates.

Staff is opposed to the use of surrogates, and also argues that CWC lead/lag studies are not done for small utilities.

Before the Commission can accept a CWC adjustment to rate base, a CWC analysis must consider all categories including operations and maintenance expenses, taxes, other expenses (e.g., sales tax), income taxes and interest expense. Including all categories in the CWC analysis eliminates the bias that would result if only negative or positive factors were used to determine the CWC requirement. Some categories of CWC factors are typically negative (e.g., PSC assessment, property taxes, income taxes, and interest expense) and other CWC factors are typically positive (e.g., payroll, Federal Insurance Contributions Act (FICA) taxes and sales tax).

OPC's testimony has specific evidence to support its negative factor income tax and interest expense CWC requirements. The remainder of OPC's lead/lags and resulting factors and CWC requirements for other CWC categories are based on surrogates that are not supported by evidence to be necessarily representative of Raytown Water. The

Commission cannot support a CWC adjustment to rate base without evidence to support all categories of the CWC analysis.

Based on the Raytown Water late fee data provided in Exhibit 214, the number of late paying Raytown Water customers is over 25% annually. This may be higher than what is typical for Missouri-American Water Company, making the reliance on Missouri-American Water Company's 43-day revenue lag inappropriate. No evidence was provided to compare the number of Raytown Water delinquent accounts to Missouri-American Water Company. Raytown Water's actual revenue lag may be higher than 43 days. That would make OPC's negative adjustment less.

Staff's CWC work-papers from File No. WR-2023-0006, Confluence Rivers' recent rate case, which OPC relied on in developing its Raytown Water CWC adjustment, indicates that OPC's cash voucher expense lag surrogate matches that of one specific water system within the Confluence Rivers organization. Other Confluence Rivers' water systems on the same Staff CWC work-paper had lower cash voucher lags. The selection of any one of the majority of the other water system cash voucher expense lags as a surrogate for Raytown Water would have reduced the overall adjustment to rate base proposed by OPC. There was no evidence to support the use of one cash voucher expense lag as surrogate over another.

Although Staff's Confluence Rivers CWC cash voucher work-papers seem to align with OPC's cash voucher expense lag, OPC was not able to identify the source of its cash voucher expense lag when asked at hearing, therefore leaving the largest test year CWC amount factor unsupported by evidence the Commission can rely on. OPC was also unclear on the frequency of payroll checks being issued to Raytown Water employees which impacts the payroll expense lag. While this expense lag is significantly less than

cash vouchers or income taxes and therefore has a lesser impact on the CWC adjustment the Commission cannot rely on the payroll expense lag component of the CWC adjustment.

Therefore, the Commission will not include a CWC adjustment to Raytown Water's rate base in this case because not all the necessary components or categories of a CWC analysis were supported by evidence or surrogates that the Commission considered to be representative of Raytown Water.

### **ISSUE 8 - PAYROLL EXPENSE**

#### **Findings of Fact:**

151. To determine current payroll, Staff used the salaries approved in Raytown Water's last rate case and then applied the Social Security Cost of Living Adjustment (COLA) rate for each subsequent year up to January 2023. Staff used the COLA rate because, according to the Company's board of director minutes, all employees' annual salary and wage increases are based on that rate.<sup>181</sup>

152. In this case Staff reviewed the payroll expense of each individual employee.<sup>182</sup>

153. The pay of new employees matched the pay rate for their job position. Current pay was used instead of the COLA increases for employees with promotions to new job titles. Staff updated payroll expense to include current employees of Raytown Water at June 30, 2023.<sup>183</sup>

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<sup>181</sup> Ex. 101, Foster Direct, Schedule KDF-d2.

<sup>182</sup> Ex. 110, Niemeier Rebuttal, p. 10.

<sup>183</sup> Ex. 101, Foster Direct, Schedule KDF-d2.



154. Staff adjusted Raytown Water's test year payroll expense to reflect an annualized and normalized level of payroll and payroll taxes as of June 30, 2023.<sup>184</sup>

155. Staff reviews wages for prudence to determine ongoing costs.<sup>185</sup>

156. Staff compared annualized employee wages paid by Raytown Water to the 2022 Missouri Economic Research and Information Center (MERIC) wages applicable to the Kansas City region.<sup>186</sup>

157. Staff's annualized wage for Ms. Thompson, Raytown Water's vice president, including overtime, is below MERIC's median pay for chief executives.<sup>187</sup>

158. Raytown Water's Personnel Policy Manual provides that non-exempt employees will be paid one and one-half times their hourly rate for all time worked in excess of forty hours in a payroll week. Overtime payroll for Raytown Water was calculated by Staff based on actual overtime hours for the test year and then multiplied by the current pay overtime per hour rate.<sup>188</sup>

159. There were promotions that were above the wages expected for COLA increases. In each case that the wage was different than the expected COLA raises, Staff reviewed the reasons for the change in the pay rate.<sup>189</sup>

160. A change in title, with increased job duties and responsibilities, would typically equate to an increase in pay.<sup>190</sup>

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<sup>184</sup> Ex. 101, Foster Direct, Schedule KDF-d2.

<sup>185</sup> Ex. 110, Niemeier Rebuttal, p. 9.

<sup>186</sup> Ex. 110, Niemeier Rebuttal, pp. 9-10.

<sup>187</sup> Ex. 110, Niemeier Rebuttal, p. 10.

<sup>188</sup> Ex. 101, Foster Direct, Schedule KDF-d2.

<sup>189</sup> Ex. 110, Niemeier Rebuttal, p. 10.

<sup>190</sup> Ex. 110, Niemeier Rebuttal, p. 10.

161. OPC recommended that Raytown Water's vice president be a salaried position as it is exceedingly rare for vice presidents to work for an hourly wage.<sup>191</sup>

162. One-third of Raytown Water's vice president's pay from the Company is overtime hours.<sup>192</sup>

163. Ms. Thompson is a working vice president filling in as needed in the office and in the field.<sup>193</sup>

164. Ms. Thompson spends a great deal of time performing tasks that a DS Certified field service employee should be handling as she is one of two Raytown Water employees with a Distribution System (DS) III<sup>194</sup> Certification (DS Certification) at this time.<sup>195</sup>

165. A person with a DS Certification is required to be involved with repairs of all water breaks.<sup>196</sup> DS Certification is a requirement of the Missouri Department of Natural Resources as part of its regulatory oversight.<sup>197</sup>

166. Ms. Thompson goes to the site to assess the need for immediate water main repair or if repair can wait until normal business hours when called after hours by police reporting water running down the road.<sup>198</sup>

167. Raytown Water would typically have 50-60 water breaks a year but had over 100 breaks in 2022, and 100 in 2023 as of the hearing date.<sup>199</sup>

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<sup>191</sup> Ex. 209, Schaben Direct, p. 15.

<sup>192</sup> Ex. 209, Schaben Direct, p. 15.

<sup>193</sup> Tr. Vol. 2, p. 38.

<sup>194</sup> The III, or 3, of the DS Certification relates to the assigned classification of the water distribution system one is being licensed to operate. *See generally*, 10 CSR 60-14.010 and 14.020.

<sup>195</sup> Ex. 205, Riley Direct, p. 7 (who testified to only one employee having a DS Certification); and Ex. 2, Thompson Rebuttal, p. 17 (testifying to two employees holding a DS Certification).

<sup>196</sup> Ex. 2, Thompson Rebuttal, p. 17.

<sup>197</sup> Ex. 205, Riley Direct, p. 7.

<sup>198</sup> Tr. Vol. 2, p. 38.

<sup>199</sup> Tr. Vol. 2, p. 95.

168. Due to staffing needs, there were no other options but for the vice president to assume extra duties. Of Raytown Water's 16 full-time employees, five work in the field and three are meter readers.<sup>200</sup>

169. Raytown Water is short-staffed.<sup>201</sup>

170. The vice president's overtime hours include preparation work for collection day, billing, after hour calls, program updates for computer, end of day back-up, emergency call outs (water breaks), cover for short office/field staff as needed to meet deadlines, and after hour turn-ons on collection day for both water and sewer (through disconnect agreements).<sup>202</sup>

171. Raytown Water's field supervisor that held a DS III Certification retired, and the current field supervisor does not yet hold that certification.

172. OPC argues that the vice president's overtime should be eliminated due to duplication in the field or due to the installation of AMI.<sup>203</sup>

173. OPC's overtime analysis does not differentiate between vice president's office overtime and field overtime.<sup>204</sup>

174. OPC witness Riley testified that it was odd that Staff chose to accept overtime pay as a salary expense without applying an average or other normalization method.<sup>205</sup>

175. Staff annualized the payroll for Raytown Water's revenue requirement.<sup>206</sup>

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<sup>200</sup> Ex. 2, Thompson Rebuttal, p. 17.

<sup>201</sup> Ex. 2, Thompson Rebuttal, p. 17.

<sup>202</sup> Ex. 2, Thompson Rebuttal, p. 16.

<sup>203</sup> Ex. 205, Riley Direct, pp. 7-8.

<sup>204</sup> Ex. 208, Payne Surrebuttal, p. 7.

<sup>205</sup> Ex. 206, Riley Surrebuttal, p. 12.

<sup>206</sup> Ex. 208, Payne Surrebuttal, p. 4.

176. OPC witness Payne argued against annualizing the overtime because of the possibility the same amount of overtime may not be worked each year.<sup>207</sup>

177. Raytown Water expects to continue the same amount of overtime into the foreseeable future.<sup>208</sup>

178. OPC witness Payne testified that he was not aware of any federal overtime statute.<sup>209</sup> Nevertheless, OPC testified that there are two designations for pay, hourly and salary, and implied that only hourly has the ability to receive overtime.<sup>210</sup>

179. OPC witness Payne also testified that his knowledge of overtime being worked without pay by salaried employees was his experience at a prior position as a business analyst and auditor over financial statements from businesses.<sup>211</sup>

180. OPC witness Payne testified that the revenue requirement should only include a base salary, without overtime; such that any overtime paid would come from shareholders.<sup>212</sup>

181. OPC witness Payne testified to an income range for comparison of certain employee wage or salary positions; however, the range consists only of salary ranges and job descriptions for the Public Water Supply District No. 2 of Jackson County, a neighboring water system.<sup>213</sup>

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<sup>207</sup> Ex. 208, Payne Surrebuttal, p. 4; and p. 7.

<sup>208</sup> Ex. 205, Riley Direct, p. 6.

<sup>209</sup> Tr. Vol. 3, p. 371. Raytown Water included a copy of such a statute with its brief. The Company also argued the applicability of that statute (the Fair Labor Standards Act). The Commission will not consider the FSLA and the Company's related arguments as it was provided to the Commission or other parties, and was argued for the first time, after the close of the record. However, the Commission finds it significant that the OPC testifying on overtime was unaware of its existence.

<sup>210</sup> Ex. 208, Payne Surrebuttal, p. 4.

<sup>211</sup> Tr. Vol. 3, p. 374.

<sup>212</sup> Tr. Vol. 3, p. 370.

<sup>213</sup> Ex. 208, Payne Surrebuttal, Schedule MMP-S-1.

182. OPC witness Payne's analysis shows that overtime costs for the Senior Accounting Clerk and Senior Customer Service/Admin Assistant combined was \$14,551. This amount is one third of the cost to employ an additional office employee at the low end of the comparative salary range (\$21 per hour).<sup>214</sup>

### **Conclusions of Law**

U. The Court of Appeals has stated as follows:

Normalization of a test year cost by multi-year averaging of the cost based on experience assumes that the cost rises and falls, with the consequence that the actual cost incurred in the test year is not representative.<sup>215</sup>

### **Issue Presented by the Parties**

- a. *Should all of the Company's employee overtime be normalized?*
- b. *What is the just and reasonable amount of pay to include in rates for the Company's Vice President, Sr. Accounting Clerk, Jr. Accounting Clerk, and Sr. Customer Service/Admin Assistant?*

### **Decision**

The issue of payroll expense includes in part the amount paid to employees for an annualized wage/salary considering employee levels at the end of the measurement period multiplied by the current wage/salary rates. Overtime is typically a normalized number of hours multiplied by the current average wage of the employees performing overtime work. Payroll taxes, pension or 401K matches, and benefits also are payroll related expenses that may or may not be impacted by the wages/salaries paid to employees. Overtime expense is considered separately from the annualized payroll.

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<sup>214</sup> Ex. 208, Payne Surrebuttal, p 7.

<sup>215</sup> *Missouri Power and Light Company v. Public Service Comm'n*, 669 S.W.2d 941, 945 (Mo. App. W.D.).

The vice president is one of two, the other being the president, current Raytown Water employees with a DS certification. When after-hours leaks occur, it requires a person holding a DS Certification to be present to assess the need for immediate water main repairs. The Commission finds after-hours leak assessment for Raytown Water to be necessary to the safe and efficient provision of service in this instance. If not the vice president, the assessment would still require field overtime for any after-hours water repairs or leak assessments.

The Commission will not restrict the Company's ability to respond to after-hours utility issues by eliminating or restricting recovery of utility-related overtime for one of two employees with a DS certification. The Commission is not persuaded by OPC's arguments to normalize or eliminate the necessary overtime of the Raytown Water vice president.

The evidence supports the inclusion of Ms. Thompson's overtime hours at her June 30, 2023, wage rate multiplied by 1.5, consistent with Raytown Water's Personnel Policy Manual. Ms. Thompson's annualized level of wage at June 30, 2023, as vice president shall also be included in Raytown Water's revenue requirement. OPC's requested disallowance of the vice president's overtime is denied.

OPC also argued that overtime should be normalized because of the possibility that the overtime wages included in rates, if annualized, may not be worked the same amount every year. No other argument was presented against annualization or in support of normalization than the possibility of inconsistent overtime hours annually. No party provided an overtime hours analysis as evidence to demonstrate that the test year amount of overtime hours is more appropriate than a normalization of overtime hours over a three to five-year period. However, evidence related to an increased number of water

leaks requiring repair and maintenance of the distribution and transmission mains does support an increased amount of field overtime hours. Evidence established that Raytown Water is short-handed and in need of employees. Evidence established that even the task of meter reading has required the assistance of the vice president in some weeks.

Next, OPC recommended the Commission order the normalization of the overtime of certain witnesses. However, OPC witness Payne was unaware of the classifications of employees that receive overtime, stating that salaried workers do not receive overtime, and that hourly workers receive one- and one-half times their hourly pay for overtime, but provided no source for this statement. Although testifying about overtime requirements, witness Payne was unaware of the existence of the Fair Labor Standards Act. Witness Payne directly controverted the testimony of several witnesses in order to request a normalization based on the possibility that the following years' overtime may not be the same amount – specifically that Raytown Water is short-handed and expects the overtime to continue. Witness Payne's overtime analysis does not differentiate between the vice president's office overtime and field overtime. The Commission does not find OPC witness Payne's testimony on this issue, in this case, to be credible.

OPC's requested normalization of overtime is denied. There is no evidence these expenses vary enough to justify averaging, to the contrary the overtime expenses are expected to continue due to the short-staffing of Raytown Water. The Commission finds that annualizing the overtime of Raytown Water employees is just and reasonable. OPC's request to disallow recovery of overtime is denied. OPC's request to normalize overtime is denied.

The parties also sought the just and reasonable amount of pay to include in rates for the Company's vice president, Sr. Accounting Clerk, Jr. Accounting Clerk, and Sr.

Customer Service/Admin Assistant. There was very little evidence provided by any party regarding these specific job titles, with the exception of the vice president. Based on the evidence discussed above, the Commission finds Raytown Water to be short-handed. The Commission finds that Raytown Water was short-handed during the test year and update period. Raytown Water is short-handed to such a degree that its vice president and president are the only two employees with a required DS Certification.

There is no credible evidence to support any conclusion other than an annualized recovery. Only the testimony of witness Payne was supportive of normalizing overtime, and his rationale was based on the workers possibly not working the same overtime hours in future years. Therefore, the Commission finds the just and reasonable amount to include for employee payroll overtime for the Company's Vice President, Sr. Accounting Clerk, Jr. Accounting Clerk, and Sr. Customer Service/Admin Assistant is the amount actually worked by the employees during the test year and update period.

### **ISSUE 9 - METER READING EXPENSE**

#### **Findings of Fact:**

183. Raytown Water reads one quarter (approximately 1,600 meters) of its water system over four days so that bills can be issued on the fifth day of the week.<sup>216</sup>

184. As of June 30, 2023, Raytown employed three meter readers.<sup>217</sup>

185. Historically, Raytown Water has not had enough personnel to comfortably complete meter reads.<sup>218</sup>

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<sup>216</sup> Tr. Vol. 2, pp. 102-103.

<sup>217</sup> Ex. 2, Thompson Rebuttal, p. 14.

<sup>218</sup> Ex. 2, Thompson Rebuttal, p. 14.



186. With the transition to AMI meters, USG is responsible for all the equipment they have installed. Raytown Water will still have responsibility, should they wish, for any meters they install after USG's meter installation is complete. This could include any new subdivisions, or new area where the Company may install a meter.<sup>219</sup>

187. With the transition to AMI meters, two of the meter reader's titles will be changed to Meter Service Techs.<sup>220</sup>

188. With the transition to AMI meters, Raytown Water plans to continue to employ the two Meter Service Techs to complete meter rereads, service orders, water sampling and collection disconnections and reconnects.<sup>221</sup>

189. The third meter reader will be transferred to the Field Crew to help with water main breaks, disconnections, restoration and regular system maintenance duties. With that addition, the Field Crew will still be short five field people. This organizational change should result in the employees being more productive and should reduce the likelihood of office management being pulled into the field.<sup>222</sup>

190. OPC's position is that meter reading is no longer a full-time job, so the two meter readers' positions that will remain should float between water testing and field work.<sup>223</sup>

191. A majority of meters with AMI are being read remotely. However, Raytown Water was still reading some of the AMI meters manually to verify information.<sup>224</sup>

## **Conclusions of Law**

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<sup>219</sup> Tr. Vol. 2, pp. 85-86.

<sup>220</sup> Tr. Vol. 2, p. 111.

<sup>221</sup> Ex. 2, Thompson Rebuttal, p. 14.

<sup>222</sup> Ex. 2, Thompson Rebuttal, p. 15; Ex. 112, Williams Rebuttal, p. 2.

<sup>223</sup> Ex. 206, Riley Surrebuttal, pp. 3-4.

<sup>224</sup> Tr. Vol. 2, p. 104.

No additional Conclusions of Law are necessary to this issue.

### **Issue Presented by the Parties**

*What is the just and reasonable amount to include in rates for meter reading expense?*

### **Decision**

Even though there will be changes to tasks assigned to the existing three meter readers in the future, the Commission finds it appropriate to base the revenue requirement on the end of the update period, June 30, 2023. To make an adjustment past the update period, the Commission must find there will be a known and measurable change to that category of expense. As Raytown Water continues to transition to having a fully operational AMI system, the Company has indicated it has future plans to continue to employ the three current meter readers, two as meter techs and one as a field worker assisting in the repair and maintenance of the water distribution system because Raytown Water is currently understaffed. The timing of that transition is not known and measurable and OPC has not provided convincing evidence sufficient to justify making an adjustment to the update period of labor expense. The evidence supports that there is a continuing need for the three meter readers at a minimum through the update period and that even with the transition of the current meter readers to new job titles and job descriptions, there will be no resulting reduction in labor expense.

## **ISSUE 10 - RATE CASE EXPENSE**

### **Findings of Fact:**

192. An analysis of expenses over a period of time would average the costs if there were fluctuations in expenses from year to year. This would normalize the costs.<sup>225</sup>

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<sup>225</sup> Tr. Vol. 2, p. 181.

193. Amortization of any expense to be included in a utility's revenue requirement sets a fixed amount for recovery in rates over a specific number of years. Staff may review in each rate case whether expenses amortized are being over or under recovered in rates. The amortized expense amount may be adjusted to reduce over or under recovery.<sup>226</sup>

194. The Commission's approval of a sharing of rate case expenses between shareholders and customers has been applied almost exclusively to large utility companies that incur higher rate case expenses.<sup>227</sup>

195. Staff recommended recovery of 100% of Raytown Water's actual rate case expenses.<sup>228</sup>

196. The Staff recommended a 50/50 sharing of rate case expenses in Indian Hills' rate case, File No. WR-2017-0259, because it included consultant costs. These costs were above the typical small utility rate case expenses.<sup>229</sup>

197. Raytown Water's only witness other than its owners, Andre Noel, Director of Revenue Management & Metering Services of USG Water Solutions,<sup>230</sup> was not paid for his testimony.<sup>231</sup>

198. Raytown Water's rate case expenses through the hearing amounted to approximately \$38,000 including legal fees and travel expenses to attend the hearing.<sup>232</sup>

199. Staff has applied a two-case average of rate case expense to Raytown Water for at least the past three rate cases before the Commission.<sup>233</sup>

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<sup>226</sup> Tr. Vol. 2, pp. 181-182.

<sup>227</sup> Tr. Vol. 3, pp. 308-309.

<sup>228</sup> Tr. Vol. 3, p. 308.

<sup>229</sup> Tr. Vol. 3, p. 309.

<sup>233</sup> Ex. 4, Noel Surrebuttal, p. 1.

<sup>231</sup> Tr. Vol. 2, p. 84.

<sup>232</sup> Ex. 401C, Known and measurable rate case expenses.

<sup>233</sup> Ex. 207, Payne Rebuttal, p. 2.

200. Staff's rate case expense work-paper in the current case added the rate case costs (\$8,592.98) from File No. WR-2020-0264 incurred in 2020 to the rate case costs (\$3,118.73) of the current case incurred in 2023 (prior to the end of the update period) for a total of \$11,711.71. Staff's average of the total (\$5,856) is identified as the normalized or adjusted amount.<sup>234</sup>

201. Staff indicated at hearing that if the next Raytown Water rate case were anticipated to be in three years the rate case expense work-paper total of \$11,711.71 would be divided by three for the rate case expense adjustment.<sup>235</sup>

202. Staff's rate case expense work-paper from Raytown Water's 2015 rate case, File No. WR-2015-0246, identifies Raytown Water's 2012 rate case residual costs totaling \$3,309.22 incurred in 2012 and 2013. Rate case costs incurred in 2015 total \$14,170.51. The combined total from the two rate cases is \$17,479.73. Staff indicates a normalized rate case expense 3-years of \$5,826.58.

203. Raytown Water has recovered the total normalized amount of rate case expense in each year going back to the 2015 rate case.<sup>236</sup>

## **Conclusions of Law**

V. Rate case expenses are the incremental costs incurred by the utility directly related to its application to change its general rate levels.<sup>237</sup>

W. The Court of Appeals has stated as follows:

Normalization of a test year cost by multi-year averaging of the cost based on experience assumes that the cost rises and falls, with the consequence that the actual cost incurred in the test year is not representative.<sup>238</sup>

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<sup>234</sup> Ex. 207, Payne Rebuttal, Schedule MMP-R-3.

<sup>235</sup> Tr. Vol. 3, pp. 298-299.

<sup>236</sup> Ex. 207, Payne Rebuttal, p. 2.

<sup>237</sup> *KCP&L's Request for Authority to Implement a General Rate Increase for Electric Service*, 509 S.W.3d 757, 775 (Mo. App. W.D.), 2016.

<sup>238</sup> *Missouri Power and Light Company v. Public Service Comm'n*, 669 S.W.2d 941, 945 (Mo. App. W.D.).

## **Issue Presented by the Parties**

*What amount of rate case expense should be included in the cost of service?*

- a. Should rate case expense be amortized or normalized?*
- b. Should the rate case expense follow a 50/50 sharing mechanism?*

## **Decision**

The use of an average when comparing expenses that fluctuate over time provides a normalized amount of expense. When normalizing the rate case expenses of two rate cases the average represents a normal rate case expense. The 2020 Raytown Water rate case settled with the filing of the unanimous disposition agreement. The 2020 rate case expenses are not comparable to the current rate case expenses that include testimony, hearing related travel and legal representation costs. If the 2020 rate case and the current rate case costs were averaged, the result  $(\$8,592.98 + \$38,190.71)/2 = \$46,783.69/2 = 23,391.85$ . A normalization that included this case would not allow recovery of the current rate case actual costs. For this reason, the Commission will consider only the actual rate case expenses of the current rate case. Allowing the recovery of the \$38,191 actual rate case expenses over two years would include \$19,095 in Raytown Water's revenue requirement.

Staff's work-papers (Payne rebuttal schedules MMP-R-2 and MMP-R-3) are not accurate examples of normalization because the average rate case expense should be spread over the years anticipated before the next rate case is filed. Staff's work-papers apply the average rate case expense to each year (as if a rate case occurred every year) or divide the sum of the two rate case expenses by the number of years between cases (recovering costs incurred prior to the test year).

The \$5,856 amount that is included in Staff's work-paper for the current rate case is the average of the two rate cases' total cost amounts (Raytown Water's 2020 and 2023 rate cases). That average amount should have been divided by the two years anticipated before the next rate case. Thus, Staff's method allows recovery of the entire average or normalized rate case expense amount each year.

If it were appropriate to recover the average/normalized amount each year, the zero rate case expenses for 2021 and 2022 would need to be included in the average. The use of a normalization to smooth out expenses that fluctuate over time may be appropriate in some cases, as noted by the Court of Appeals. The variance in rate case expenses between a Staff assisted utility rate case that settles with a unanimous disposition agreement and that of a rate case that goes to hearing is too large to be considered together under the typical normalization or averaging method. Normalization of rate case expenses would be appropriate when all cases included in the analysis settle through a disposition agreement. Likewise, normalization of rate case expenses when all cases included in the analysis go to hearing would also be appropriate.

The additional costs incurred by Raytown Water for legal representation at hearing are substantially more than the typical expenses that would be incurred in a Staff assisted rate case.

Raytown Water's only witness besides its president and vice president was not compensated for his testimony. Raytown Water's legal representation was required when Raytown Water's rate case was set for hearing because of its corporate status. Whether those costs are recoverable from the utility customers is a decision made on a case-by-case basis.

The Commission will allow recovery of the \$38,191 in actual rate case expense over two years which includes \$19,095 in Raytown Water's revenue requirement. This will normalize the actual rate case expenses over two years. The Commission does not find it appropriate to require a sharing of rate case costs since once the current rate case was set for hearing Raytown Water was required to have legal representation. Raytown Water did not hire consultants or expert witnesses whose testimony could arguably benefit both the rate payers and shareholders.

### **ISSUE 11 - TRUCK DISALLOWANCE**

#### **Findings of Fact:**

204. A 2022<sup>239</sup> Dodge Ram 2500 (commonly referred to as Truck 206)<sup>240</sup> is owned by Raytown Water and commonly driven by Raytown Water President Neal Clevenger,<sup>241</sup> but is also available and is used by field personnel.<sup>242</sup>

205. Mr. Clevenger drives Truck 206 to and from work on a daily basis. Mr. Clevenger records those miles as personal mileage in his mileage log.<sup>243</sup>

206. The total amount of personal miles being reimbursed is very low.<sup>244</sup> In 2022, Mr. Clevenger's average monthly personal mileage was 28 miles.<sup>245</sup>

207. Part of the reason for Mr. Clevenger to take Truck 206 home is due to safety concerns with vehicles that are left at the Raytown Water facility having been vandalized, broken into, and even stolen.<sup>246</sup>

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<sup>239</sup> The year was corrected in OPC's Initial Brief, filed December 7 at 3:48 p.m., p. 54, footnote 264.

<sup>240</sup> Ex. 209, Schaben Direct, p. 6, table.

<sup>241</sup> Ex. 209, Schaben Direct, p. 10.

<sup>242</sup> Ex. 6, Clevenger Rebuttal, p. 11.

<sup>243</sup> Tr. Vol. 3, pp. 283-284.

<sup>244</sup> Tr. Vol. 3, p. 282.

<sup>245</sup> Tr. Vol. 3, p. 279.

<sup>246</sup> Tr. Vol. 3, p. 284.

208. Truck 206 was used by other personnel of Raytown Water on approximately 40 different days in the first six months of 2023.<sup>247</sup>

209. The IRS Standard Mileage Rate contemplates the variable costs of operating a vehicle, such as gas, oil, tires, maintenance and repairs. The IRS Standard Mileage Rate also contemplates the fixed costs such as insurance, vehicle registration, and depreciation.<sup>248</sup>

210. Raytown Water has used the Internal Revenue Service (IRS) Standard Mileage Rate for company vehicle reimbursements since at least 2002.<sup>249</sup>

211. Raytown Water has been using the IRS Standard Mileage Rate during and after the pendency of File Nos. WR-2009-0098, WR-2012-0405, WR-2015-0246, and WR-2020-0264.<sup>250</sup>

212. OPC has had constructive knowledge since 2008 that the IRS Standard Mileage Rate was being used to determine the revenue generated from Mr. Clevenger's personal use of the Company truck.<sup>251</sup>

213. In File No. WR-2009-0098, OPC did not dispute the mileage reimbursement, which was the IRS Standard Mileage Rate.<sup>252</sup>

214. There is no practical difference in the costs being reimbursed whether an employer reimburses an employee for using their personal vehicle at the IRS Standard Mileage Rate versus an employee reimbursing the employer for personal mileage of a company vehicle.<sup>253</sup>

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<sup>247</sup> Ex. 6, Clevenger Rebuttal, p. 11.

<sup>248</sup> Ex. 6, Clevenger Rebuttal, pp. 10-11, citing to the IRS website. See *also* Tr. Vol. 3, pp. 281 and 282.

<sup>249</sup> Ex. 108, Horton Rebuttal, pp. 3-4.

<sup>250</sup> Ex. 108, Horton Rebuttal, p. 4.

<sup>251</sup> Ex. 108, Horton Rebuttal, pp. 3-4.

<sup>252</sup> Ex. 211, Schaben Surrebuttal, p. 5.

<sup>253</sup> Tr. Vol. 3, p. 288.



215. In May 2023, Staff reviewed Raytown Water's mileage log and confirmed that Mr. Clevenger's personal use of Truck 206 was minimal, that there was a monthly record of the mileage use, and that there were associated payments for that mileage.<sup>254</sup>

216. OPC made two recommendations regarding Truck 206 – that Raytown Water follow the recommendations of the 1993 Management Audit in relation to personal use of company vehicle reimbursement;<sup>255</sup> and a plant in service (rate base) disallowance related to Truck 206 plus order reimbursement based on competitive vehicle rental company rates rather than the IRS Standard Mileage Rate.<sup>256</sup>

217. OPC claimed that the IRS Standard Mileage Rate does not sufficiently recover the cost of property taxes or other vehicle expense, but provided no citation or calculations to support the assertion.<sup>257</sup>

218. OPC recommended a disallowance of \$8,030 to account for return on and depreciation expense of Truck 206.<sup>258</sup>

219. Mr. Clevenger is billed monthly, but sometimes pays his mileage several months at a time.<sup>259</sup>

220. Vehicles can be rented on a: per day, per hour, or per mile basis. Raytown Water has chosen to use a per mile basis.<sup>260</sup>

## **Conclusions of Law**

No additional Conclusions of Law are necessary to this issue.

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<sup>254</sup> Ex. 108, Horton Rebuttal, p. 5.

<sup>255</sup> Discussed below in the next issue section.

<sup>256</sup> Ex. 211, Schaben Surrebuttal, p. 1.

<sup>257</sup> Ex. 211, Schaben Surrebuttal, p. 5.

<sup>258</sup> Ex. 211, Schaben Direct, p. 13.

<sup>259</sup> Ex. 6, Clevenger Rebuttal, p. 9.

<sup>260</sup> Ex. 6, Clevenger Rebuttal, p. 10.

## Issue Presented by the Parties

- a. *What amount of the Company's Truck 206 should be included in revenue requirement?*
- b. *How should the Company be reimbursed for the personal use of its vehicles?*

## Decision

Staff and the Company provided evidence that the amount of personal mileage by Mr. Clevenger is minimal. Evidence shows there are multiple reasons to support taking the truck home. The Commission finds that the truck is available to other personnel, and available for non-business hour utility-related transportation to Mr. Clevenger.

An average of 28 miles per month multiplied by the \$0.65 IRS Standard Mileage Rate equals \$18.20 in reimbursement costs for the average month in 2022 for Mr. Clevenger's personal use of Truck 206. The Commission finds that the mileage log is being kept and reimbursements are being made<sup>261</sup>. The Commission finds that Raytown Water has been using the same reimbursement system unchallenged for over 20 years and that the use of the IRS mileage rate to be an adequate method for company vehicle personal use reimbursement to Raytown Water.

OPC argues that Mr. Clevenger's reimbursement is not monthly. That assertion is correct. The 1993 management audit recommendation for monthly reimbursement considered a much greater vehicle and equipment usage level that is no longer applicable. For ease of recordkeeping, reimbursements should be made at least quarterly. The Commission finds unpersuasive the argument of OPC that the Company has an intent to treat Truck 206 as Mr. Clevenger's personal vehicle. While it is a benefit

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<sup>261</sup> The Commission would recommend that the mileage log be kept in Truck 206, and not in the office as was indicated by testimony.

to Mr. Clevenger, the Commission is not persuaded that the benefit to Mr. Clevenger outweighs the safety from vandalism of Truck 206 itself, the ability for Mr. Clevenger to respond to off-hours utility-related issues, and/or the ability for other Raytown Water personnel to use Truck 206.

The Commission finds Truck 206 is used and useful in the provision of Raytown Water's utility service. The Commission finds it is just and reasonable that the full amount of Truck 206 be included in rate base and related costs (return and depreciation) recovered in Raytown Water's revenue requirement.

The Commission finds no issue at present with Raytown Water's reimbursement of company vehicles practices and will not order any change. OPC's request for the Commission to order reimbursement at a competitive vehicle rental company rate is denied.

## **ISSUE 12 - 1993 MANAGEMENT AUDIT**

### **Findings of Fact:**

221. A corporation's board of directors are elected by shareholders. Related family members that currently serve on the Raytown Water board of directors were duly elected by shareholders.<sup>262</sup>

222. OPC contends that Raytown Water is not following at least three of the 1993 Management Audit recommendations: Develop and implement formal competitive bidding procedures with documentation for all major equipment purchases, automate the company's general ledger, and the monthly reimbursement for the personal use of company vehicles.<sup>263</sup>

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<sup>262</sup> Tr. Vol. 3, pp. 392-393.

<sup>263</sup> Tr. Vol. 3, p. 304; and Ex. 209, Schaben Direct, Schedule ADS-D-4.

223. Raytown Water has committed to reinstate its automated accounting system.<sup>264</sup>

224. In File No. WR-92-85, the Commission authorized the Management Audit based upon the recommendation of the City of Raytown.<sup>265</sup>

225. Staff filed a management audit report October 1993 recommending 48 improvements to Raytown Water's strategic planning, financial management, and operations and maintenance.<sup>266</sup>

226. Due to the frequency and extent of non-utility usage found during the 1993 audit, Staff recommended monthly reimbursement for personal use of company equipment and labor usage. Due to the frequency and extent of that usage Staff was concerned semi-annual reimbursements could result in non-utility business being subsidized by the utility.<sup>267</sup>

227. Mr. Clevenger testified that his personal use of the company truck is minimal with daily trips to lunch and home. Both daily trips are within five blocks of Raytown Water. He may also use the company truck for a few doctor and dental appointments throughout the year.<sup>268</sup>

228. Staff's work-paper documenting Mr. Clevenger's personal mileage reimbursements from January 2022 through April 2023 indicate that the personal mileage was minimal with no month exceeding 58 miles. The outstanding reimbursement for multiple months at no time exceeded \$100. During the calendar year 2022 total

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<sup>264</sup> Ex. 6, Clevenger Rebuttal, p. 6.

<sup>265</sup> Tr. Vol. 3, pp. 398-399; and Ex. 209, Schaben Direct, Schedule ADS-D-3.

<sup>266</sup> Ex. 209, Schaben Direct, Schedule ADS-D-4, *Management Audit of the Raytown Water Company (Management Audit)*.

<sup>267</sup> Ex. 209, Schaben Direct, Schedule ADS-D-4, *Management Audit*, p. 41.

<sup>268</sup> Tr. Vol. 2, pp. 147-148.

reimbursements owed were only \$206.04. For the first four months of 2023, reimbursements owed totaled just \$61.71.<sup>269</sup>

229. Staff's Implementation Review was filed in February 1999. Three supplemental implementation reviews were filed prior to the closing of the case in October 2000. The Management Audit focused on those areas of management control in the Company's operations that held the potential for improvement. Objectives were also established to provide information by which the Company could achieve more cost-effective operations and provide an improved level of service.<sup>270</sup>

230. Raytown Water fully implemented its automated general ledger in December 1994. The Company was required to automate its general ledger as part of the stipulation and agreement in File No. WR-94-211. The accounting supervisor made all entries to the general ledger. Raytown Water also automated its accounts receivable and accounts payable in December 1994. Cost savings were realized with the automated general ledger.<sup>271</sup>

231. Raytown Water later reverted back to manual ledger entries to accommodate an accountant's preference.<sup>272</sup>

232. Raytown Water utilized competitive bids for its 2-million-gallon storage tower, transmission mains, old main replacements and new hydrants after the implementation of its procurement policy in 1994.<sup>273</sup>

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<sup>269</sup> Ex. 400, Workpapers for Truck 206.

<sup>270</sup> Ex. 209, Schaben Direct, Schedule ADS-D-5, *Implementation Review of Raytown Water Company (Implementation Review)*.

<sup>271</sup> Ex. 209, Schaben Direct, Schedule ADS-D-5, *Implementation Review*, p. 28.

<sup>272</sup> Ex. 6, Clevenger Rebuttal, p. 6.

<sup>273</sup> Ex. 209, Schaben Direct, Schedule ADS-D-5, *Implementation Review*, p. 14.

233. During its meetings in 2021 and 2022, Raytown Water's board of directors noted issues with manual accounting records and discrepancies that took a significant amount of company management time to sort out. In a letter dated June 1, 2023, Raytown Water's external auditor suggested the Company transition to electronic accounting records to reduce the risk of errors.<sup>274</sup>

234. Staff's reports from Raytown Water rate cases following the 1993 audit, WR-2009-0098, WR-2012-0405, WR-2015-0246, and WR-2020-0264 also included a number of recommendations to improve Raytown Water's management and operations processes.<sup>275</sup>

235. It would be difficult to quantify any specific harm to Raytown Water customers of deviations from the Management Audit recommendations and no evidence of a quantifiable harm was offered.<sup>276</sup>

236. Raytown Water continues to follow a number of the Management Audit business (financial management) recommendations.<sup>277</sup>

237. The Management Audit financial management recommendations remain best business practices today.<sup>278</sup>

238. Staff's Water, Sewer and Steam Department spent time with Raytown Water employees onsite observing the management and operations of the utility and were satisfied that operations were adequate. Staff discussed staffing issues with Company personnel.<sup>279</sup>

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<sup>274</sup> Ex. 209, Schaben Direct, p. 6.

<sup>275</sup> Ex. 211, Schaben Surrebuttal, p. 3.

<sup>276</sup> Tr. Vol. 3, pp. 390-391.

<sup>277</sup> Tr. Vol. 3, pp. 394-395.

<sup>278</sup> Tr. Vol. 3, pp. 395-396.

<sup>279</sup> Tr. Vol. 2, p. 166.

239. Raytown Water's inability to follow its procurement policy for the purchase of AMI meters and vehicles may have been related to it being under staffed. The Company explained during the hearing the steps it used in place of its procurement policy in determining which AMI meter and vehicles to purchase.<sup>280</sup>

240. A number of the management audit recommendations to assist Raytown Water in following best business practices 30 years ago are still relevant today and are being followed by Raytown Water; but not all.<sup>281</sup>

241. The purchase and implementation of the AMI meters make some of the meter related management audit recommendations inapplicable to current operations.<sup>282</sup>

242. Staff considers Raytown Water's informal discussions with other utilities and AMI vendors more valuable, in this case, than a formal bid process because of the actual and personal data shared with Raytown Water.<sup>283</sup>

243. The condition of the economy during the period of time Raytown Water began comparing AMI meters for purchase led to price increases that would have also occurred in a Request for Proposal (RFP) process.<sup>284</sup>

244. Staff accepted Raytown Water's use of USG, a nationwide company Raytown Water has been working with for several years and that has a very good reputation, as a reasonable alternative to a more formal RFP process in helping procure AMI meters.<sup>285</sup>

## **Conclusions of Law**

No additional Conclusions of Law are necessary to this issue.

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<sup>280</sup> Tr. Vol. 2, p. 161.

<sup>281</sup> Tr. Vol. 2, p. 163.

<sup>282</sup> Tr. Vol. 2, pp. 169-170.

<sup>283</sup> Tr. Vol. 2, p. 172.

<sup>284</sup> Tr. Vol. 2, p. 174.

<sup>285</sup> Tr. Vol. 2, p. 164.

## **Issue Presented by the Parties**

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

## **Decision**

The Management Audit recommendations were implemented at Raytown Water approximately thirty years ago. Because of the passage of time and new AMI meters some of the recommendations are no longer relevant. The Management Audit recommendations were considered best business practices at the time. Business best practices provide efficiencies and cost savings and support documentation required for financial statements.

Once Raytown Water implemented the Management Audit recommendations, the case was closed. Raytown Water's implementation of policies and procedures to comply with the Management Audit recommendations did not eliminate additional Staff recommendations over the years. Utility operations evolve over time to meet new challenges and opportunities. The application of best business practices is influenced by the size of the utility and its resources. One size does not fit all.

The Commission does not manage utilities but requires utilities to comply with the USoA and maintain its books and records in acceptable formats that may be reviewed during case proceedings. When utility management chooses to implement best business practices the number of issues in a case before the Commission may be reduced. However, there are likely multiple options of how best business practices can be applied on a daily basis depending on the size and circumstances of a utility company.



The actual policies and procedures implemented by Raytown Water to comply with the management audit were not provided as evidence by any party in this case. The management of Raytown Water chooses how it manages the utility.

Raytown Water's board of directors are elected by its shareholders. This is consistent with the general standard in place for all corporations. OPC seemed to be challenging arms-length transactions or the separation of duties with its line of questioning the witnesses but did not specifically state it. Both arms-length transactions and separation of duties would be best practices to reduce fraud. Some of the management audit recommendations addressed these best practices but these were not specifically challenged in the issues.

The Commission will not make a determination of whether Raytown Water remains in compliance with its agreement with Staff from 1993. A utility's management policies and procedures are not static. The Commission will not require Raytown Water to comply with recommendations that originated 30 years ago. The passage of time and advancements in technology have made a number of the management audit recommendations obsolete. A utility's business management practices are evaluated by parties and if contested evaluated by this Commission in each company rate case. If the Commission finds a given utility's practice is unreasonable and detrimentally affecting its rate payers, the Commission will make the appropriate disallowances or adjustments in that case.

Raytown Water's use of alternative methodologies from those adopted 30 years ago may be appropriate and still be in compliance with Commission Rules. A determination of whether Raytown Water's business decisions are necessarily prudent, which is challenged in several of the issues before the Commission in this rate case, does

not hinge on whether it is in compliance with Staff's recommendations from 30 years ago. The Commission notes that Raytown Water has already computerized its general ledger as recommended by its external auditor. The Commission strongly supports that managerial decision.

The Commission will deny OPC's request for it to re-order compliance with the 1993 Management Audit.

### **CONCLUSION**

The Commission, having considered the competent and substantial evidence upon the whole record, makes the above findings of fact and conclusions of law. The positions and arguments of all of the parties have been considered by the Commission in making these findings. Any failure to specifically address a piece of evidence, position, or argument of any party does not indicate that the Commission did not consider relevant evidence, but indicates rather that omitted material is not dispositive of this decision.

Except as otherwise set out in the body of this order, the Commission finds that Raytown Water has met its burden of proof to show that an increased rate is just and reasonable. Thus, the Commission concludes, based upon its review of the whole record that rates approved as a result of this order support the provision of safe and adequate service. The revenue requirement authorized by the Commission in this case is no more than what is sufficient to keep Raytown Water's utility plant in proper repair for effective public service and provide to the Company's investors an opportunity to earn a reasonable return upon funds invested.

By statute, orders of the Commission become effective in thirty days, unless the Commission establishes a different effective date.<sup>286</sup> To allow Raytown Water the

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<sup>286</sup> Section 386.490.2, RSMo.

opportunity to implement the approved just and reasonable rates as soon as practicable, the Commission finds it reasonable to make this order effective in less than 30 days.

**THE COMMISSION ORDERS THAT:**

1. Raytown Water's motion to strike a portion of Mr. Payne's testimony is denied.

2. Raytown Water's motion to strike a portion of Mr. Riley's testimony is denied.

3. The tariff sheets submitted on September 14, 2023, and assigned Tracking Nos. JW-2024-0039 are rejected.

4. Raytown Water is authorized to file tariff sheets sufficient to recover revenues approved in compliance with this order.

5. AMI meters shall be included in rate base at 45.12% of the total AMI cost, or \$1,746,097.

6. OPC's proposal to eliminate or reduce late fees is denied.

7. On Depreciation:

a. The accumulated depreciation reserve amounts from Accounts: 346.1, Meters-Bronze Chamber; 395, Laboratory Equipment; 396, Power Operated Equipment; and 397, Communications Equipment, totaling \$51,559 shall be transferred to the depreciation reserve of Accounts 346.2, Meter-Hot Rod in the amount of \$3,549 and 390, Structures and Improvements-General Plant in the amount of \$48,010.

b. The depreciation expense of plastic meters shall be reduced by 45.12% in Raytown Water's revenue requirement. The revenue requirement shall also include the depreciation expense on the 3,073 AMI meters that were in service as of June 30, 2023.

c. The positive salvage value or sale price of the trucks sold by Raytown Water during 2022 through June 30, 2023, shall be

added to the depreciation reserve for the transportation equipment Account, 392.

8. OPC's request for a second notice is denied as moot. OPC's request for a local public hearing to occur after the evidentiary hearing is denied.

9. The non-labor operations and maintenance expense of \$411,370 shall be reflected in Account 673, Maintenance of Transmission and Distribution Mains and included in Raytown Water's revenue requirement

10. The appropriate cost of capital shall be based on an ROE of 9.90%. The appropriate dividend rate on preferred stock is 7.5%.

11. Cash working capital shall not be included in rate base.

12. Overtime shall not be normalized. Payroll as of June 30, 2023, shall be included in the revenue requirement.

13. The revenue requirement shall reflect the three meter readers employed as of June 30, 2023.

14. Rate case expense of \$38,191 shall be normalized over two years, which will include \$19,095 in Raytown Water's revenue requirement.

15. The full amount of Truck 206 shall be included in the revenue requirement. OPC's request regarding ordering new reimbursement rates is denied.

16. OPC's request for the Commission to re-order compliance with certain provisions of the 1993 Management Audit is denied.

17. This *Report and Order* will become effective on January 29, 2024.



**BY THE COMMISSION**

A handwritten signature in black ink that reads "Nancy Dippell". The signature is written in a cursive, flowing style.

Nancy Dippell  
Secretary

Rupp, Chm., Coleman, Holsman, Kolkmeier  
and Hahn CC., concur and certify compliance  
with the provisions of Section 536.080, RSMo (2016).

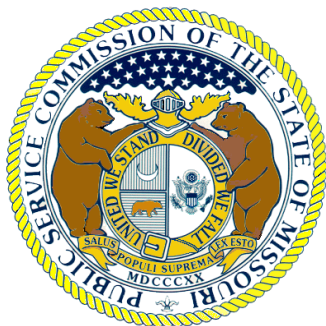
Hatcher, Senior Regulatory Law Judge

**STATE OF MISSOURI**

**OFFICE OF THE PUBLIC SERVICE COMMISSION**

**I have compared the preceding copy with the original on file in this office and I do hereby certify the same to be a true copy therefrom and the whole thereof.**

**WITNESS my hand and seal of the Public Service Commission, at Jefferson City, Missouri, this 18<sup>th</sup> day of January 2024.**



*Nancy Dippell*  
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**Nancy Dippell**  
**Secretary**

**MISSOURI PUBLIC SERVICE COMMISSION**

**January 18, 2024**

**File/Case No. WR-2023-0344**

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**Enclosed find a certified copy of an Order or Notice issued in the above-referenced matter(s).**

**Sincerely,**



**Nancy Dippell  
Secretary**

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Recipients listed above with a valid e-mail address will receive electronic service. Recipients without a valid e-mail address will receive paper service.