

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

In the Matter of the Petition of Missouri-American )  
Water Company for Approval to Change a Water and ) **File No. WO-2024-0195**  
Sewer Infrastructure Rate Adjustment )

**STAFF’S RECOMMENDATION**

**COMES NOW** the Staff of the Missouri Public Service Commission (“Staff”), by and through counsel, and hereby submits its *Recommendation*, stating as follows:

1. Sections 393.1500-1509, RSMo, provide that eligible water and sewer corporations may recover certain infrastructure system replacement costs through a Water and Sewer Infrastructure Rate Adjustment (“WSIRA”). Pursuant to Commission Rule 20 CSR 4240-4.017, Missouri-American Water Company (“MAWC”) filed its Notice of Intended Case Filing on December 14, 2023.

2. On March 1, 2024, MAWC filed its Petition to Change a Water and Sewer Infrastructure Rate Adjustment (“Petition”) with the Missouri Public Service Commission (“Commission”), and attached to MAWC’s *Petition* were Appendices A – K. MAWC also filed tariff sheets in the tariff tracking files, JW-2024-0120 and JS-2024-0121.

3. MAWC submitted its *Petition* to recover *WSIRA* investment that was placed into service for the period November 1, 2023, to January 31, 2024, with estimated *WSIRA* costs for February 1, 2024, through April 30, 2024, also included. MAWC estimated in its *Petition* that it was entitled to *WSIRA* water revenues of \$19,254,857 and sewer revenues of \$272,062. This would equate to an increase of 4.6% for water and 1.4% for sewer based on the base revenue level approved by the Commission in its most recent rate case.

4. Based upon its investigation and calculations, Staff concludes the Company's actual *WSIRA* rates should be designed to recover annual *WSIRA* revenues of \$16,739,071 from St. Louis County water customers, \$3,739,420 from All Other water customers, \$10,842 from Arnold sewer customers, and \$326,600 from All Other sewer customers for a total of \$20,815,934.

5. Staff is recommending that the Commission disallow \$7,625.00 because the Company is seeking to recover for the hiring of security personnel while replacing certain meters.<sup>1</sup> Staff cannot support a position that enables the Company to earn a return on that type of expense through *WSIRA*. However, it is Staff's position that these expenses should be recovered as part of the normal rate case process.

6. Staff's calculations reflect the overall weighted average cost of capital of 8.65% (tax grossed up rate of return) and MAWC's current depreciation rates, as reflected in the *Stipulation and Agreement* the Commission approved and ordered on May 3, 2023, in Case No. WR-2022-0303.

7. Staff examined workpapers and supporting documentation for MAWC's proposed *WSIRA* filing and the *Stipulation and Agreement* in Case No. WR-2022-0303. Staff concluded that the project costs included in this *WSIRA* filing met statutory requirements, as further explained in the attached *Memorandum*. Staff agrees with MAWC's methodology utilized in its *WSIRA* revenue requirement calculation for the purpose of this *WSIRA* filing. As per Section 393.1509.9., neither Staff nor the

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<sup>1</sup> Companies can experience security expenses associated with personnel guarding treatment plants, motor-pools, and other areas.

Commission is making a determination of the prudence of any of the projects included in this *WSIRA* filing.<sup>2</sup>

8. MAWC is current on its quarterly assessment payments and is not delinquent for prior year's assessments, nor does MAWC have any past due annual reports. In addition, at this time MAWC's *WSIRA* has not been in effect for a twelve-month period so a reconciliation of *WSIRA* revenues is not required in this case.

**WHEREFORE**, for the reasons stated above and in Staff's attached *Memorandum*, incorporated herein, Staff recommends that the Commission issue an order in this case that:

1. Rejects the following proposed tariff sheets filed in Tariff No. JW-2024-0120:
  - a. FORM NO. 13 P.S.C. MO NO. 13 8<sup>th</sup> Revised Sheet No. RT 11.1 Cancelling 7<sup>th</sup> Revised Sheet No. RT 11.1, and
  - b. FORM NO. 13. P.S.C. MO No. 13 8<sup>th</sup> Revised Sheet No. RT 11.2 Cancelling 7<sup>th</sup> Revised Sheet No. RT 11.2;
2. Rejects the following proposed tariff sheets filed in Tariff No. JS-2024-0121:
  - a. FORM NO. 13 P.S.C. MO NO. 26 7<sup>th</sup> Revised Sheet No. RT 11.1 Cancelling 6<sup>th</sup> Revised Sheet No. RT 11.1, and
  - b. FORM NO. 13. P.S.C. MO No. 26 7<sup>th</sup> Revised Sheet No. RT 11.2 Cancelling 6<sup>th</sup> Revised Sheet No. RT 11.2;
3. Approves Staff's recommended *WSIRA* surcharge revenues in this docket in the incremental pre-tax revenue amount of \$16,739,071 from St. Louis County water customers, \$3,739,420 from All Other water customers, \$10,842 from Arnold sewer customers, and \$326,600 from All Other sewer customers for a total in this filing of \$20,815,934; and
4. Authorizes MAWC to file revised tariff sheets for each utility, service area, and customer class, as reflected in Staff's Schedules 1 - 4, which generates \$20,815,934.

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<sup>2</sup> Nothing contained in sections 393.1503 to 393.1509 shall be construed to impair . . . the authority of the commission to review the reasonableness of the rates or charges of a water or sewer corporation, including review of the prudence of eligible infrastructure system replacements made by a water or sewer corporation, pursuant to the provisions of section 386.390.

Respectfully submitted,

**/s/ Eric Vandergriff**

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**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed or hand-delivered, transmitted by facsimile or electronically mailed to all parties and/or counsel of record on this 30<sup>th</sup> day of May, 2024.

**/s/ Eric Vandergriff**



submitted an Application to Intervene on March 21, 2024. Missouri Industrial Energy Consumers (MIEC) also filed an Application to Intervene, but on March 22, 2024. On April 5, 2024, the Commission issued an Order Granting Intervention to MECG and an Order Directing Response for MIEC to file a response showing good cause as to why their application was filed late. The response was due April 10, 2024. No response was received by the Commission and on April 24, 2024, the Commission issued an Order Denying Late-Filed Application to Intervene for MIEC. No other parties requested intervention. The Commission directed Staff to file a report regarding its recommendation of the WSIRA filing no later than May 30, 2024. The Commission ordered MAWC to respond to Staff's recommendation by June 7, 2024.

In the course of processing the Petition, the Company updated its numbers and Staff calculated the new WSIRA rates. As is routine in this type of proceeding, the Company will need to submit new proposed tariff sheets that reflect its updated calculations and proposed WSIRA rates. The tariff sheets MAWC filed in this docket have an issue date of March 1, 2024, and an effective date of March 31, 2024. If the Commission approves new WSIRA rates, MAWC will need to submit new tariff sheets which include revised issue and effective dates. MAWC's most recent WSIRA tariff sheets approved by the Commission, in Case No. WO-2023-0427, were issued December 21, 2023, and became effective January 20, 2024.

### **STAFF INVESTIGATION**

The Missouri Water and Sewer Infrastructure Act, Section 393.1506, RSMo, states:

A water or sewer corporation that provides water or sewer service to more than eight thousand customer connections may file a petition and proposed rate schedules with the commission to establish or change a WSIRA that will provide for the recovery of the appropriate pretax revenues associated with the eligible infrastructure system projects, less the appropriate pretax revenues associated with any retired utility plant that is being replaced by the eligible infrastructure system projects. The WSIRA shall not produce revenues in excess of fifteen percent of the water or sewer corporation's base revenue requirement approved by the commission in the water or sewer corporation's most recent general rate proceeding; provided, however, that neither WSIRA revenues attributable to replacement of customer-owned lead service lines, nor any reconciliation amounts described in subdivision (2) of subsection 5 of section 393.1509, shall count toward the program cap.

As noted in its Petition, MAWC serves approximately 483,000 water customers and 24,000 sewer customers, thereby meeting the WSIRA filing criteria of a corporation providing water or sewer service to more than 8,000 customer connections. In addition, the cumulative amount of WSIRA

revenues that will result from this Petition does not exceed 15% percent, or \$65.625 million, of the base revenue levels of \$437.5 million approved by the Commission in the most recent MAWC general rate case, Case No. WR-2022-0303.

Revenue Requirement in WR-2022-0303	\$437,500,000
WSIRA Cap per Legislation	15%
WSIRA \$ Cap	\$65,625,000 <sup>2</sup>
Prior Approved - WSIRA WO-2023-0427	\$26,679,890
Current Case - WSIRA WO-2024-0195	\$20,823,559 <sup>3</sup>

As part of its analysis of MAWC's Petition, Staff reviewed supporting workpapers, descriptions of WSIRA projects, MAWC's accounting entries, and a sample of invoices representing approximately 50% of total WSIRA investment costs, as well as other applicable documentation, such as work order authorizations. Staff communicated with MAWC personnel to clarify MAWC's Petition when necessary. Staff also visited and inspected many sites which had WSIRA-eligible infrastructure system projects placed into service during the audited period.

### **THE PETITION**

MAWC states in its Petition, as follows:

MAWC, per this Petition, seeks to change a WSIRA to provide for the recovery of costs for infrastructure system projects eligible for WSIRA recognition. The proposed WSIRA rate schedules filed concurrently with this Petition reflect the appropriate pre-tax revenues necessary to produce net operating income equal to MAWC's pretax weighted cost of capital multiplied by the net original cost of the eligible infrastructure system projects, including recognition of accumulated deferred income taxes and accumulated depreciation associated with eligible infrastructure system projects which are included in the petition to establish or change a WSIRA pursuant to Sections 393.1500 through 393.1509. MAWC also seeks to recover all state, 3 federal and local income or excise taxes applicable to such income and to recover all other costs such as depreciation expense and property taxes due within 12 months of this filing.

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<sup>2</sup> According to Section 393.1506.1, RSMo, replacement of customer-owned lead service lines does not count toward the program cap. MAWC did not include in this WSIRA filing costs related to the replacement of customer-owned lead service lines.

<sup>3</sup> Includes WSIRA revenue adjustments for reconciliation.

MAWC states that the water or sewer utility plant projects for which it seeks recovery of pretax revenues consist of the following:

1. Replacement of or cleaning and relining of existing water and sewer pipes, and associated valves, hydrants, meters, service lines, laterals, sewer taps, curbstops, and manholes;
2. Replacement of lead mains, lead goosenecks and lead service lines, and associated valves and meters;
3. Replacement of booster station and lift station pumps, with equipment of similar capacity and operation, as well as related pipes, valves, and meters;
4. Facilities relocations required due to construction or improvement of a highway, road, street, public way, or other public work by or on behalf of the United States, this state, a political subdivision of this state, or another entity having the power of eminent domain; provided that the costs related to such projects have not been reimbursed to the water or sewer corporation;
5. Replacement of water and wastewater treatment mechanical equipment with equipment of similar capacity and operation, including well and intake pumps, transfer pumps, high service or discharge pumps, and metering pumps; and
6. Replacement of Supervisory Control and Data Acquisition System (SCADA) components necessary for the operation and monitoring of remote installations including radio and cellular communication equipment, and programmable logic controllers.<sup>4</sup>

The Company's Petition indicates that its proposed water rate schedule (including estimated amounts for February, March, and April of 2024) will produce estimated WSIRA revenues of \$19,254,857 or an increase of 4.6% based on the base water revenue level approved by the Commission in its most recently completed general rate proceeding on an annualized basis.

The Company's Petition indicates that its proposed sewer rate schedule (including estimated amounts for February, March, and April of 2024) produce estimated WSIRA revenues of \$272,062 or an increase of 1.4% based on the base sewer revenue level approved by the Commission in its most recently completed general rate proceeding on an annualized basis.

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<sup>4</sup> Section 393.1503.(7), RSMo.

### **STAFF'S REVENUE CALCULATION**

Staff agrees with MAWC's methodology in calculating the WSIRA revenue requirement for this filing. Staff replaced the estimated costs filed in the Petition and updated the balances with the actual cost for that period.

During the course of its review, Staff found only two instances where the invoice amounts did not match amounts contained within the Company's workpapers. These discrepancies were Use Tax calculations that were applied to the invoices after the original invoice was created. Staff worked with the Company to identify and understand the discrepancies. Staff received documentation that matched the Company's workpapers.

Staff also worked with the Company on some accounting entries needing verification of WSIRA recovery eligibility. The Company removed any ineligible project expense entries from the adjusted balances.

There were also a few entries Staff is recommending be disallowed for the WSIRA request as Staff does not believe them to be WSIRA eligible project expenses. These expenses are for security personnel during meter replacements in a high crime area of the state. It is Staff's position that the Company should not earn a return on that type of expense. Companies can experience security expenses associated with personnel guarding treatment plants, motor-pools, and other areas. Staff's position is that these expenses should be recovered as part of the normal rate case process. The effect of the disallowed expenses after depreciation and taxes is a revenue requirement \$7,625 less than the company is requesting.

### **THE WSIRA RATE SCHEDULES**

#### **Water**

The proposed WSIRA water rate schedules include a volumetric rate for each affected customer class (Rate A, Rate B and Rate J), with the rate to be determined through the use of the customer class billing determinants from the Company's last rate case, Case No. WR-2022-0303, and the WSIRA revenues allocated to each affected customer class (Rate A, Rate B and Rate J) for both St. Louis County and the All Other Missouri District.

#### **Sewer**

The proposed WSIRA sewer rate schedules include the WSIRA Revenue Requirement for all sewer customers divided by the revenues authorized from the Company's last rate case, Case No. WR-2022-0303. This calculation represents a percentage that will then be applied to the customer's total bill.

MAWC sewer customers are a mix of flat rate customers and metered customers. Because of this mix of rate design types for sewer customers, MAWC has proposed to continue a sewer WSIRA rate that is a percentage of the total customer bill.<sup>5</sup> The revenues authorized in MAWC's most recent rate case were used as the basis because that should be the annual base rate revenue generated from the currently approved sewer rates. Therefore, including a surcharge of 0.2902% (for Arnold) and 3.3505% (for Other Sewer) of the customer bill should generate the appropriate sewer WSIRA revenue requirement.

For this case, Staff finds it reasonable to utilize the Company's methodology for calculating the WSIRA water and sewer rates based on Staff's calculation of the WSIRA water and sewer revenue requirements. The WSIRA rates are reflected in Schedule 1 through Schedule 4 attached to this Memorandum.

#### **ASSESSMENTS AND ANNUAL REPORTS**

MAWC is current on its quarterly assessment payments and is not delinquent for the prior year's assessments. MAWC does not have any past due annual reports.

#### **STAFF RECONCILIATION**

Section 393.1509.5 (2), RSMo, requires a utility to reconcile the differences between the revenues resulting from a WSIRA and the appropriate pretax revenues, as found by the Commission, at the end of each 12-month calendar period that a WSIRA is in effect. The utility shall propose to recover or credit the difference, as appropriate, through the WSIRA. At this time, MAWC's WSIRA has not been in effect for a 12-month period. Therefore, MAWC is not required to reconcile its WSIRA revenues in this case.

#### **STAFF'S CONCLUSIONS**

In its Petition, MAWC filed to recover WSIRA-eligible infrastructure system project costs incurred during the period of November 1, 2023, through April 30, 2024. In the Petition, MAWC estimated an amount of additional plant investment for February, March, and April of 2024. At the time MAWC filed its Petition, MAWC proposed WSIRA revenues for water of \$19,254,857 and sewer revenues of \$272,062. The final, updated workpapers, which include the actual WSIRA investments through April, were received on May 16, 2024. These updated workpapers included increases in the proposed revenues for both water and sewer.

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<sup>5</sup> MAWC response to Data Request No. 0005.

Based upon its investigation and calculations, Staff concludes the Company's actual WSIRA rates should be designed to recover annual WSIRA revenues of \$16,739,071 from St. Louis County water customers, \$3,739,420 from All Other water customers, \$10,842 from Arnold sewer customers, and \$326,600 from All Other sewer customers for a total of \$20,815,934.

Staff's calculations reflect the overall weighted average cost of capital of 8.65% (tax grossed up rate of return) and MAWC's current depreciation rates, as reflected in the Stipulation and Agreement the Commission approved and ordered on May 3, 2023, in Case No. WR-2022-0303.

Staff's calculations reflect the actual WSIRA eligible investment placed in service from November 1, 2023 through April 30, 2024. In addition, property taxes on plant placed in service prior to December 31, 2023 will be due within the next 12 months of this WSIRA filing. As such, Staff has included these property taxes in the WSIRA revenue requirement.

Staff based its conclusions on an examination of workpapers and supporting documentation for the projects included for recovery in MAWC's proposed WSIRA filing, as well as from a review of the Stipulation and Agreement in Case No. WR-2022-0303. As a result, it is Staff's conclusion that the project costs incorporated within this WSIRA filing meet the requirements of the governing statutes as summarized previously in this Memorandum in the discussion of the Company's Petition. As per the enabling statute, neither Staff nor the Commission is making a determination of the ultimate prudence of any of the projects included in this WSIRA filing.

### **STAFF'S RECOMMENDATION**

Based on the above, Staff recommends that the Commission issue an order that:

1. Rejects the following proposed tariff sheets filed in Tariff No. JW-2024-0120:
  - a. FORM NO. 13 P.S.C. MO NO. 13 8<sup>th</sup> Revised Sheet No. RT 11.1 Cancelling 7<sup>th</sup> Revised Sheet No. RT 11.1, and
  - b. FORM NO. 13. P.S.C. MO No. 13 8<sup>th</sup> Revised Sheet No. RT 11.2 Cancelling 7<sup>th</sup> Revised Sheet No. RT 11.2;
2. Rejects the following proposed tariff sheets filed in Tariff No. JS-2024-0121:
  - a. FORM NO. 13 P.S.C. MO NO. 26 7<sup>th</sup> Revised Sheet No. RT 11.1 Cancelling 6<sup>th</sup> Revised Sheet No. RT 11.1, and
  - b. FORM NO. 13. P.S.C. MO No. 26 7<sup>th</sup> Revised Sheet No. RT 11.2 Cancelling 6<sup>th</sup> Revised Sheet No. RT 11.2;

3. Approves Staff's recommended WSIRA surcharge revenues in this docket in the incremental pre-tax revenue amount of \$16,739,071 from St. Louis County water customers, \$3,739,420 from All Other water customers, \$10,842 from Arnold sewer customers, and \$326,600 from All Other sewer customers for a total in this filing of \$20,815,934; and
4. Authorizes MAWC to file revised tariff sheets for each utility, service area, and customer class, as reflected in Staff's Schedules 1 – 4, which generates \$20,815,934.



Missouri-American Water Company  
Case No. WO-2024-0195  
Staff's WSIRA Water Rate Design Calculation  
St. Louis District Water

<b>WSIRA Recovery</b>				
	<b>Staff Revenue Requirement</b>	<b>Billing Determinants Sales (000 Gal) (1)</b>	<b>WSIRA Rate per 1000 Gal.</b>	
Rate A	\$ 16,059,263	31,771,914	\$	0.50545
Rate B	\$ 245,756	1,579,721	\$	0.15557
Rate J	\$ 434,053	3,959,678	\$	0.10962
	<b>\$ 16,739,071</b>	<b>37,311,313</b>		

(1) Per billing determinants in Case WR-2022-0303

<b>Proposed WSIRA Rate Design Per 1,000 Gallons</b>					
	Current WSIRA Rate		Adjustment to Current WSIRA Rate (2)		Proposed WSIRA Rate to Use on Tariff
<b>Rate Per 1000 Gal</b>					
Rate A	\$ 0.70316	\$	0.50545	\$	1.20861
Rate B	\$ 0.21642	\$	0.15557	\$	0.37199
Rate J	\$ 0.15249	\$	0.10962	\$	0.26211

(2) Calculated per above

<b>Proposed WSIRA Rate Design Per 100 Gallons</b>					
	Current WSIRA Rate		Adjustment to Current WSIRA Rate		Proposed WSIRA Rate to Use on Tariff
<b>Rate Per 100 Gal</b>					
Rate A	\$ 0.07032	\$	0.05055	\$	0.12086
Rate B	\$ 0.02164	\$	0.01556	\$	0.03720
Rate J	\$ 0.01525	\$	0.01096	\$	0.02621

Missouri-American Water Company  
Case No. WO-2024-0195  
Staff's WSIRA Water Rate Design Calculation  
All Other District Water

<b>WSIRA Recovery</b>				
	<b>Staff Revenue Requirement</b>	<b>Billing Determinants Sales (000 Gal) (1)</b>		<b>WSIRA Rate per 1000 Gal.</b>
Rate A	\$ 3,268,505	8,964,577	\$	0.36460
Rate B	\$ 113,669	1,214,373	\$	0.09360
Rate J	\$ 357,246	2,971,865	\$	0.12021
	<b>\$ 3,739,420</b>	<b>13,150,816</b>		

(1) Per billing determinants in Case WR-2022-0303

<b>Proposed WSIRA Rate Design Per 1,000 Gallons</b>				
	<b>Current WSIRA Rate</b>	<b>Adjustment to Current WSIRA Rate (2)</b>		<b>Proposed WSIRA Rate to Use on Tariff</b>
<b>Rate Per 1000 Gal</b>				
Rate A	\$ 0.32074	\$ 0.36460	\$	0.68534
Rate B	\$ 0.08234	\$ 0.09360	\$	0.17594
Rate J	\$ 0.10575	\$ 0.12021	\$	0.22596

(2) Calculated per above

<b>Proposed WSIRA Rate Design Per 100 Gallons</b>				
	<b>Current WSIRA Rate</b>	<b>Adjustment to Current WSIRA Rate</b>		<b>Proposed WSIRA Rate to Use on Tariff</b>
<b>Rate Per 100 Gal</b>				
Rate A	\$ 0.03207	\$ 0.03646	\$	0.06853
Rate B	\$ 0.00823	\$ 0.00936	\$	0.01759
Rate J	\$ 0.01058	\$ 0.01202	\$	0.02260

Missouri-American Water Company  
Case No. WO-2024-0195  
Staff's WSIRA Sewer Rate Design Calculation  
Arnold Sewer

	<b>WSIRA Recovery Staff Revenue Requirement</b>
WSIRA Staff Revenue Requirement	\$ 10,842
Revenues Authorized in Case No. WR-2022-0303	\$ 6,640,662
Percent (%) Authorized Revenues	<b>0.1633%</b>

Customer Bill  
\$ 0.06382 RT 1.1

<b>Proposed WSIRA Sewer Rate Design</b>			
	Current WSIRA Rate	Adjustment to Current WSIRA Rate (1)	Proposed WSIRA Rate to Use on Tariff
Arnold Sewer	0.1269%	0.1633%	0.2902%
(1) Calculated per above			

Missouri-American Water Company  
Case No. WO-2024-0195  
Staff's WSIRA Sewer Rate Design Calculation  
All Other Sewer

	<b>WSIRA Recovery Staff Revenue Requirement</b>
WSIRA Staff Revenue Requirement	\$ 326,600
Revenues Authorized in Case No. WR-2022-0303	\$ 12,599,470
Percent (%) Authorized Revenues	<b>2.5922%</b>

Customer Bill	
\$	1.69424 RT 2.1
\$	1.39537 RT 3.1

<b>Proposed WSIRA Sewer Rate Design</b>			
	Current WSIRA Rate	Adjustment to Current WSIRA Rate (1)	Proposed WSIRA Rate to Use on Tariff
All Other Sewer	0.7585%	2.5922%	3.3507%
(1) Calculated per above			