

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

In the Matter of Missouri-American Water)
Company's Request for Authority to)
Implement a General Rate Increase for) **File No. WR-2024-0320**
Water and Sewer Service Provided in)
Missouri Service Areas)

MECG STATEMENT OF POSITIONS

COMES NOW the Midwest Energy Consumers Group (MECG), and for its Statement of Positions, respectfully states:

1. Overview and Regulatory Policy
 - a. Production Cost Tracker (if not RSM): Should MAWC be allowed to implement a production cost tracker?

Position: The proposed production cost tracker should be rejected. The proposal is single-issue ratemaking and disrupts the balance of operating efficiency incentives present in normal ratemaking. The tracker shifts risk to customers and allows the company to recover certain components of the revenue requirement on a piecemeal basis, outside of a full rate case, which undermines the Commission's ability to evaluate the sufficiency of the utility's costs and revenues in a given test year. Furthermore, these costs proposed to be included in the tracker are not volatile, unpredictable, or outside the company's control such that they warrant being tracked in an extraordinary way. These costs are normal operating costs of MAWC and do not qualify for special deferral accounting treatment. Lastly, the company has not shown that it would not have a reasonable opportunity to earn its authorized return without this special accounting mechanism. See Direct / Rebuttal testimony of Jessica York, pp. 27-28.

- b. Rate Case Test Year—Discrete Adjustments: What, if any, discrete adjustments should the Commission make related to matters that will be known and measurable prior to the operation of law date in this case?

Position: **MECG takes no position on this issue at this time.**

- c. Regulatory Deferrals:
 - i. Should MAWC be allowed to defer depreciation expense as soon as new plant investment is placed into service?
 - ii. Should MAWC be allowed to capitalize post-in-service carrying costs?

Position: **The Commission should reject MAWC's request for plant in service accounting.**

See John Robinett Direct / Rebuttal, pp. 1-5.

2. Labor & Related:

- a. Incentive/Performance Compensation: Should incentive/performance compensation be included in MAWC's cost of service?
- b. Payroll: What is appropriate amount of payroll expense to be included in MAWC's cost of service?
- c. Payroll Taxes: What amount of payroll tax should be included in MAWC's cost of service?
- d. Employee Benefits (Other than Pensions and OPEBs):
 - i. What is the appropriate amount of pensions and OPEBs to include in MAWC's cost of service?
 - ii. Should the pensions and OPEBs tracker be continued?
- e. O&M for Labor/Capitalization: What is the appropriate amount of O&M for labor/capitalization to include in MAWC's cost of service?
- f. Employee Benefits (Group Insurance, 401k, etc.): What amount should be included in MAWC's cost of service for employee benefits other than pensions/OPEB?

Position: **MECG takes no position on these issues at this time.**

3. Class Cost of Service (CCOS)/Rate Design

- a. CCOS
 - i. What allocation factors should be used for allocating the revenue requirement among rate classes?

Position: **The Company's water CCOS for its Other MO district relies on the Base-Extra Capacity method for cost allocation. This is a generally acceptable approach for functionalizing, classifying, and allocating the water cost of service across customer classes. However, MECG's Jessica York identifies certain deficiencies in the Company's CCOS that should be corrected to improve the accuracy of the study. First, the Public Fire protection class should receive an allocation of the Source of supply and Water treatment costs. Second,**

purchased power expense should be allocated both on a base and extra-capacity demand, rather than only on base usage. Third, the Rate J distribution multiplier in the CCOSS should be corrected to reflect the 6.5% as supported by the company’s data request responses. Fourth, the system load factors used to assign costs between the base and extra-capacity functions should be modified consistent with the customer class load characteristics indicated by the customer class peaking factors and to reflect the methodology described in the AWWA Manual M1.

- ii. What is the appropriate allocation of revenue requirement among the rate classes? Should the Commission utilize the Class Cost of Service Studies filed in this case to determine the appropriate allocation of the revenue requirement to each class? How should the revenues associated with special contracts be treated in developing the class cost of service?

Position: **The Commission should adopt the recommendations of Jessica York to the Other MO CCOSS study. If those recommended corrections are adopted, MECG supports an allocation that brings all classes closer to cost of service, subject to the limitation that no class receive an increase greater than 1.25 times the district average. Using the company’s claimed revenue requirement the revenue spread proposed by MECG is reflected in the table below:**

TABLE JAY-2								
<u>MECG's CCOSS vs. Primary Proposed Revenue Spread for Other MO</u>								
Line	Customer Class	Current	Increase to Reach COS ¹			MECG Proposed Increase ²		
		Revenue ¹	Amount	Percent	Index	Amount	Percent	Index
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
Other MO								
1	Residential	\$ 68,796,681	\$ 39,676,170	57.7%	1.22	\$ 40,574,294	59.0%	1.25
2	Non-Residential	30,997,236	6,350,317	20.5%	0.43	9,460,015	30.5%	0.65
3	Rate J	10,574,416	881,866	8.3%	0.18	1,942,711	18.4%	0.39
4	Rate B	4,406,843	1,377,786	31.3%	0.66	1,819,888	41.3%	0.88
5	Rate P	1,091,501	2,268,309	207.8%	4.40	643,736	59.0%	1.25
6	Private Fire	1,926,258	5,022,247	260.7%	5.53	1,136,051	59.0%	1.25
7	Total	<u>\$ 117,792,935</u>	<u>\$ 55,576,695</u>	47.2%	1.00	<u>\$ 55,576,695</u>	47.2%	1.00

Sources

¹ Schedule JAY-2.

² No class receives an increase greater than 1.25x district average. Remaining revenue deficiency is spread uniformly across non-capped classes.

See Jessica York Direct / Rebuttal, pp. 5-6.

- i. How should source of supply costs be allocated to the Public Fire protection class?

Position: **Both the Private and Public Fire service classes should receive an allocation of Source of Supply, Power and Pumping, and Water Treatment costs in the water CCOSS, using the allocation factor labeled by the Company as Factor 3. The company confirmed that potable water is used to serve the Public Fire class. Because MAWC is in fact using treated water to provide fire protection service it is just and reasonable to allocate a portion of water treatment costs to the Public Fire class, just as it has done for the Private Fire class. See Jessica York Direct / Surrebuttal, pp. 8-9.**

- ii. How should Water treatment costs be allocated to the Public Fire Protection class?

Position: **Both the Private and Public Fire service classes should receive an allocation of Source of Supply, Power and Pumping, and Water Treatment costs in the water CCOSS, using the allocation factor labeled by the Company as Factor 3. The company confirmed that potable water is used to serve the Public Fire class. Because MAWC is in fact using treated water to provide fire protection service it is just and reasonable to allocate a portion of water treatment costs to the Public Fire class, just as it has done for the Private Fire class. See Jessica York Direct / Surrebuttal, pp. 8-9.**

- iii. How should purchased power expenses be allocated?

Position: **These expenses should be allocated using Factor 3. Use of Factor 3 is consistent with the proper allocation of other Source of Supply, Water Treatment, and Power and Pumping expenses that have been classified as serving both base and maximum day-extra capacity requirements. In addition, Factor 3 more accurately allocates purchased power**

expense between customer classes because it allocates costs between customer classes based on average flow and peak day demand. *See Jessica York Direct / Rebuttal, pp. 10-12.*

iv. Rate J distribution multiplier

- 1) For All other Missouri Water district what Rate J distribution multiplier should be used?

Position: For the Other MO water district the Rate J distribution multiplier should be 6.5% rather than the company's proposed 11%. Based on the company's response provided in response to MIEC 1-12, the company's initial calculation based its distribution multiplier on water sales by main size for a subset of the industrial customers taking service in the Other MO district. To reach a more appropriate multiplier, two modifications to the company's calculation should be made. First, MAWC's calculation omits certain customers from the Rate J distribution multiplier without explanation. Correcting that to include all customers in the subset results in a multiplier of 6.5% that would be more appropriate to use in this case. Second, using water consumption to develop the distribution multiplier likely overstates the portion of distribution system investment and expenses that is required to provide service to large customers. MAWC should also consider the length of distribution main serving the Rate J customers, consistent with its past practice for St. Louis County Rate J customers. *See Jessica York Direct / Rebuttal, pp. 13-14.*

- 2) Should MAWC study the length of distribution mains serving Rate J customers both inside and outside of St. Louis County?

Position: Yes. In the past it was determined that while Rate J customers may have a significant portion of water consumption served by small distribution mains, the actual length of distribution mains used to connect these customers to the transmission system represents a very small fraction of the total distribution system, and this should be recognized in developing an appropriate multiplier. In WR-2008-0311, this kind of study was done by MAWC witness

Paul Herbert for the St. Louis County Rate J customers. When evaluating the size and length of distribution mains used to serve these customers he concluded that although certain Rate J customers are connected to smaller mains, the length of those mains are only a fraction of the total distribution main system. While he did not conduct the same detailed analysis for Rate J customers outside of St. Louis County, he did recognize that one of the six largest industrial customers in Joplin was served from a distribution main, but that it was located a short distance from transmission mains. Thus, he concluded it was reasonable to exclude the usage for that customer from the Rate J class for purposes of allocating distribution costs.

Absent a study of that nature, it is appropriate in this case to use the distribution multiplier of 6.5% as calculated from the MAWC response to Data Request MIEC 1-12 as the best available data. In order to better inform the CCOSS in future cases, the Commission should direct MAWC to conduct a study of the length of distribution main serving its Rate J customers in the Other MO service area as its witness Herbert did in the 2008 rate case for St. Louis County customers. See Jessica York Direct / Rebuttal, pp. 14-16.

3) For St. Louis County, what Rate J distribution multiplier should be used?

Position: The Commission should use the Rate J distribution multiplier offered by Jessica York.

v For both districts, should system load factors be reduced to reflect peak demand that the water systems were designed to serve?

Position: For the Other MO Water CCOSS the system maximum day load factor should be modified to be consistent with the maximum day system load factor indicated by the customer class peaking factors. As shown in Table JAY-4, this results in a maximum day system load factor of 58.2%. This load factor aligns with the district specific load factors

identified by MAWC in prior rate cases, which means it classifies and allocates capacity costs in a manner that is more aligned with cost causation.

<u>Line</u>	<u>Description</u>	<u>Residential</u>	<u>Non-Residential</u>	<u>Rate J</u>	<u>Rate B</u>	<u>Contracts</u>	<u>Total</u>
		(1)	(2)	(3)	(4)	(5)	(6)
1	Average Day Use (kgal)	174,225	90,882	93,325	43,907	27,751	430,089
2	Max Day Use (kgal)	348,697	192,745	109,655	52,832	35,334	739,263
3	Load Factor	50.0%	47.2%	85.1%	83.1%	78.5%	58.2%
4	MAWC Applied System Load Factor						71.3%

Source: Schedule MWM-2, page 22.

As shown in the table, the customer class peaking factors indicate a system load factor of about 58.2%. The company's proposal to use a system load factor of 71.3% in its water CCOSS overstates the system capacity factor and assigns too much of the cost of service to the base usage cost component and not enough to the extra-capacity demand component. The Commission should adopt the recommendations of MECG's Jessica York. See Jessica York Direct / Rebuttal pp. 18-22.

- b. Rate Design: What are the appropriate rate structures and rate designs for MAWC customers? What are the appropriate customer charges? What are the appropriate commodity rates?

Position: MECG does not oppose MAWC's proposal to incorporate a declining block rate structure to Rate J. See Jessica York Direct / Rebuttal p. 23.

Meter Consolidation; Should the Commission grant MAWC's proposal to consolidate the fixed monthly charge for 5/8-inch and 3/4-inch meters to a proposed fixed charge?

Position: MECG takes no position on this issue at this time.

- c. Single Tariff Pricing: Should the Commission consolidate Rate Class A across St. Louis County and non-St. Louis County customers?

Position: **MECG takes no position on this issue at this time.**

- d. Universal Affordability Tariff: Should MAWC's proposed Universal Affordability Tariff be approved by the Commission for water and wastewater service?

Position: **MECG takes no position on this issue at this time.**

- i. If so, should it be designated as a pilot program and should any changes to the proposed tariff be ordered?
 - ii. If so, what accounting treatment should be ordered for the cost?
 - iii. If so, should the Commission order stakeholders to meet quarterly to address implantation of the tariff?
- e. Billing Determinants - Normalized Residential Customer Usage: What is the appropriate methodology to calculate normalized residential customer usage?

Position: MECG takes no position on this issue at this time.

4. Rate Base

- a. CWC
 - i. What are the appropriate expense lag days for support services, current federal income tax, and current state income tax?
 - ii. What are the appropriate billing lag days for CWC?
 - iii. What is the appropriate CWC to be included in the cost of service?
- b. Contributions in Aid of Construction (CIAC)/Amortization of CIAC: What is the appropriate amount of CIAC and amortized CIAC to include in MAWC's cost of service?
- c. Other Rate Base
 - i. What is the appropriate amount of materials and supplies to include in MAWC's cost of service?
 - ii. What is the appropriate amount of customer advances to include in MAWC's cost of service?
 - iii. What is the appropriate amount of prepayments to include in MAWC's cost of service?
 - iv. What is the appropriate amount of prepaid pension asset to include in cost of service?
- d. AFUDC: How should AFUDC be calculated going forward?

Position: MECG takes no position on these issues at this time.

5. Production Costs & Other Expense Items

- a. Chemicals: What is the appropriate amount of chemical expenses to include in MAWC's cost of service?
- b. Fuel and Power Expense: What is the appropriate amount of fuel and power expense to include in MAWC's cost of service?
- c. Purchased Water: What is the appropriate amount of purchased water expense to include in MAWC's cost of service?
- d. Waste Disposal: What is the appropriate amount of waste disposal expense to include in MAWC's cost of service?
- e. Water Loss Adjustment: What, if any, water loss percentage should be applied to system delivery to calculate chemical, fuel, and power expense?
- f. Transportation Expense and Fuel Expense: What is the appropriate amount of transportation expense and fuel expense to include in MAWC's cost of service?

- g. Rate Case Expense: Should rate case expense be shared between ratepayers and shareholders and, if so, how?
 - i. What is the appropriate accounting treatment of rate case expense?
 - ii. Should MAWC recover expenses attributable to MAWC's lead/lag study?
 - iii. Should MAWC recover the unamortized rate case expense attributable to Case No. WR-2022-0303?
- h. Office Supplies and Services Expense: What is the appropriate amount of office supply and services expense to be included in MAWC's cost of service?
- i. Leases (Rents): What is the appropriate amount of transportation lease expense to include in MAWC's cost of service?
- j. PSC Assessment: What is the appropriate amount of the PSC assessment to include in MAWC's cost of service?

Position: **MECG takes no position on these issues at this time.**

6. Miscellaneous Expense

- a. Promotional Items: What is the appropriate amount of promotional items expense to include in MAWC's cost of service?
- b. Advertising: What is the appropriate amount of advertising expense to include in MAWC's cost of service?
- c. Dues and Donations: What is the appropriate amount of dues and donations expense to include in MAWC's cost of service?
- d. Charitable Contributions: What is the appropriate amount of charitable contributions to include in MAWC's cost of service?
- e. Lobbying: Has MAWC removed all lobbying expense from its cost of service?
- f. Postage, Printing & Stationary Expense: What is the appropriate amount of postage, printing and stationary expense to include in MAWC's cost of service?
- g. Bad Debt Expense: What is the appropriate amount of bad debt expense to include in MAWC's cost of service?
- h. Amortization of Regulatory Assets:
 - i. What is the appropriate accounting treatment of the section of Emerald Pointe pipeline owned by the City of Hollister?
 - ii. What amount should be included in Amortization of Regulatory Asset for expense?
 - iii. Should MAWC receive a return on the total unamortized balance associated with lead service lines?
- j. Expiring Amortization Mechanism: Should the Commission approve the Expiring Amortization Mechanism proposed by MAWC?

Position: **MECG takes no position on these issues at this time.**

7. Maintenance Expense

- a. Tank Painting/Engineered Coating: Should tank painting costs be treated as an expense or be capitalized?
 - i. If expensed, what is the appropriate amount of tank painting expense to include in MAWC's cost of service?

- ii. If expensed, should a tracker be continued?
 - iii. If capitalized, what is the appropriate amount of tank painting expense to remove from MAWC's cost of service?
- b. Building Maintenance and Services: What is the appropriate amount of building maintenance expense to include in MAWC's cost of service?
- c. Hydrant Painting: What is the appropriate amount of hydrant painting to include in MAWC's cost of service?
- d. Main Break Expense: What is the appropriate amount of main break expense to include in cost of service?
- e. Maintenance Supplies and Services: What is the appropriate amount of maintenance supplies and services expense, other than main break, hydrant paint, and tank painting expense, to include in MAWC's cost of service?

Position: **MECG takes no position on these issues at this time.**

8. Income Taxes

- a. Excess ADIT (Amortization and Tracker): What is the correct amount association with the excess ADIT?
 - i. Should a NOL or a NOL remeasurement be recognized in excess ADIT?
- b. Income Taxes: Should income tax expense be included in MAWC's cost of service?
 - i. If so, what is the appropriate amount of income tax expense?
 - ii. Should MAWC's income tax expense be subject to a tax gross-up?
- c. Accumulated Deferred Income Taxes (ADIT): What amount should be included in accumulated deferred income taxes?

Position: **MECG takes no position on these issues at this time.**

9. ROE/Capital Structure/Cost of Debt:

- a. What is the appropriate return on equity to be used to determine the rate of return?
- b. What capital structure should be used to determine the rate of return?
- c. What is the appropriate cost of debt to use to determine the rate of return?

Position: **MECG takes no position on these issues at this time.**

10. Property Taxes: What is the appropriate amount of property tax to include in MAWC's cost of service?

Position: **MECG takes no position on this issue at this time.**

11. Credit Card Fees: what is the appropriate amount of credit card and e-check fees to include in MAWC's cost of service?

Position: **MECG takes no position on this issue at this time.**

12. Miscellaneous Service Charges: Should the Commission order any increase or decrease to the miscellaneous service charges in MAWC's tariff?

Position: **MECG takes no position on this issue at this time.**

13. Special Contracts

- a. Should Liberty/Empire be placed on Rate J?
- b. Should Chariton County PWSD #2 be placed on Rate B?
- c. Does the special services contract between MAWC and Triumph Foods, LLC continue to be in the public interest?
- d. Should the contract between MAWC and Triumph Foods, LLC continue to be approved by the Commission?

Position: **MECG takes no position on these issues at this time.**

14. Acquisitions/Divestitures: Which recently completed or anticipated acquisitions and/or divestitures should be reflected in the revenue requirement?

Position: **MECG takes no position on this issue at this time.**

15. Injuries and Damages: What is the appropriate amount to include in MAWC's cost of service for injuries and damages?

Position: **MECG takes no position on this issue at this time.**

16. Insurance (Other than group): What is the appropriate amount of insurance expense to include in MAWC's cost of service?

Position: **MECG takes no position on this issue at this time.**

17. Telecommunications Expense: What is the appropriate amount of telecommunications expense to include in MAWC's cost of service?

Position: **MECG takes no position on this issue at this time.**

18. Contract Services (Outside Services—Accounting, Legal, Missouri One Call, etc.): What is the appropriate amount of outside services to include in MAWC's cost of service?

Position: **MECG takes no position on this issue at this time.**

19. Corporate Allocations—Tariff Groups: What is the appropriate allocation of corporate costs to the tariff districts?

Position: **MECG takes no position on this issue at this time.**

20. Support Services (Service Company): What is the appropriate amount of Service Company costs to include in MAWC's cost of service?

Position: **MECG takes no position on this issue at this time.**

21. Paperless Billing Program: Should MAWC's proposed tariff sheets associated with its Paperless Billing Program be approved by the Commission?

a. If so, what, if any, modifications should the Commission order?

Position: **MECG takes no position on this issue at this time.**

22. MyWater Software: Is MAWC providing customers accurate and reliable information through the use of its existing customer facing software (MyWater account)?

a. Should the Commission order a cost disallowance of the return on MAWC's in-service meter account?

Position: **MECG takes no position on this issue at this time.**

23. Service Area Map Revisions: Should MAWC revise its service area maps and legal descriptions? If yes, how so?

Position: **MECG takes no position on this issue at this time.**

24. Depreciation

a. Depreciation Rates: Should the Commission Modify MAWC's currently ordered depreciation rates?

i. Should the Commission order MAWC to file a depreciation study with the filing of the Company's next general rate increase request?

b. Depreciation Expense: What is the appropriate amount of depreciation expense to include in MAWC's cost of service?

c. Depreciation Reserve: What is the appropriate amount of depreciation reserve expense to be included in MAWC's cost of service?

d. Capitalized Depreciation: What is the appropriate amount of capitalized depreciation to include in MAWC's cost of service?

Position: **MECG takes no position on these issues at this time.**

25. Plant in Service; What is the appropriate balance of plant in service to include in MAWC's cost of service?

Position: **MECG takes no position on this issue at this time.**

26. Customer Accounting: What is the appropriate amount of customer accounting expenses to include in MAWC's cost of service?

Position: **MECG takes no position on this issue at this time.**

27. Employee Expenses: What is the appropriate amount of employee expense to be included in MAWC's cost of service?

Position: **MECG takes no position on this issue at this time.**

28. Revenues: What is the appropriate number or residential meters to use for calculating the minimum charge to include in revenues? What is the appropriate amount of Other Operating, Miscellaneous, and Unbilled revenues?

Position: **MECG takes no position on this issue at this time.**

29. Miscellaneous tariff changes: What if any of the proposed tariff changes included in the direct/rebuttal testimony of Staff witness David A. Spratt should the Commission order?

Position: **MECG takes no position on this issue at this time.**

30. Income Eligible Programs: Should MAWC begin holding quarterly meetings with Staff, OPC, and any other interested interveners on its current income eligible programs?
a. Should MAWC's tariffs be adjusted to allow for fungibility between its income eligible programs?

Position: **MECG takes no position on this issue at this time.**

31. RSM: Should the Commission approve a RSM for MAWC? If so, how should the RSM be structured in terms of:
- i. Authorized revenues for purpose of the RSM,
 - ii. included customer classes and the treatment of each class,
 - iii. the calculation of surcharge credits or surcharges,
 - iv. the return of over-collections to customers,
 - v. the inclusion of production costs, if any,
 - vi. impact upon low-income customers,
 - vii. or other factors?

Position: **Consistent with the testimony of MECG’s Jessica York, the Commission should reject MAWC’s requested RSM. The Company has not shown that it has been unable to earn its authorized ROE under traditional ratemaking mechanisms; the RSM will unjustifiably expose customers to bill increases without consideration of changes in cost of service; and it fails to account for potential growth in revenue that could eliminate the need for changes to customers bills. Changing rates and customer bills should only be done through a thorough analysis and review of the Company’s revenue collections, and changes in cost of service to ensure that the Company’s rates and the related bills to customers are just and reasonable. See Jessica York Direct / Rebuttal pp. 24-26.**

32. Drought Resiliency
- i. Should the Commission require MAWC to develop a drought resiliency plan for service areas not currently covered by existing MAWC drought resiliency plans?
 - ii. Should the Commission require MAWC to update the plans if MAWC deems it to be necessary and file plans in subsequent rate cases?

Position: **MECG takes no position on this issue at this time.**

WHEREFORE, MECG submits its Statement of Positions.

Respectfully,

/s/ Tim Opitz

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ATTORNEY FOR MIDWEST
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to all counsel of record this 21st day of February 2025:

/s/ Tim Opitz
