

**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-2024-03205**
Water and Sewer Service Provided in)
Missouri Service Areas)

STATEMENT OF POSITIONS

COMES NOW the Staff of the Missouri Public Service Commission, and for its
Statement of Positions states as follows:

List of Issues

1. Overview and Regulatory Policy
 - a. Production Cost Tracker (if not RSM): Should MAWC be allowed to implement a production cost tracker?
Use of trackers should be considered on a case-by-case basis to allow the Commission to consider unusual conditions, such as high volatility of costs, costs for which there is no historical data, or for uncertain level of costs imposed on utilities by new Commission rules. MAWC's recent experience with production costs does not meet these criteria. Staff was able to use historical known and measurable costs for all areas of MAWC's cost of service using regulatory adjustments such as annualization and normalization to determine an ongoing and matching level of investment, expense, and revenues to include in MAWC's cost of service. (McMellen Direct / Rebuttal p. 16:1–18:4).
 - 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?
The only discrete adjustments that should be allowed are adjustments that are known and measurable and inclusion does not skew the matching principle. Timing of the adjustment must allow enough time for Staff review to determine if the adjustment is appropriate to include in the cost of service. Plant that is not used and useful in time for Staff to conduct an audit should also not be included as a discrete adjustment.
If the Commission would determine it is appropriate to include discrete plant additions, Staff recommends that any depreciation expense and return on plant that is not in place by May 31, 2025, be refunded to customers either as a bill credit or through a deferral in the next rate case. (Bolin Direct/Rebuttal, p 8-13)

c. Regulatory Deferrals:

- i. Should MAWC be allowed to defer depreciation expense as soon as new plant investment is placed into service?

No. Currently MAWC recovers a large percentage of plant additions incurred between rate cases through the Water and Sewer Investment Rate Adjustment (“WSIRA”), thus the WSIRA mechanism provides sufficient earnings protection to MAWC’s plant additions. (Bolin Direct/Rebuttal, p 13-21; Bolin Cross-Surrebuttal)

- ii. Should MAWC be allowed to capitalize post-in-service carrying costs?

No. Currently MAWC recovers a large percentage of plant additions incurred between rate cases through the Water and Sewer Investment Rate Adjustment (“WSIRA”), thus the WSIRA mechanism provides sufficient earnings protection to MAWC’s plant additions. (Bolin Direct/Rebuttal, p 13-21; Bolin Cross-Surrebuttal)

2. Labor & Related:

- a. Incentive/Performance Compensation: Should incentive/performance compensation be included in MAWC’s cost of service?

Non-union employees annual performance plan (“APP”) compensation related to MAWC’s financial performance should not be included in MAWC’s cost of service. Staff reviewed a confidential list of the MAWC and American Water Works Service Company, Inc. (“Service Company”) employees who received APP during 2024 and determined each employee’s eligibility to participate in APP. Staff is recommending 100% allowance of the APP paid out to union employees only, based solely upon the confidential National Benefits Agreement (“NBA”). However, Staff is recommending a 50% disallowance of APP for non-union employees due to it being tied to MAWC’s financial performance. There has been no connection found between the financial results for which incentives are awarded and tangible benefits to ratepayers. Staff is recommending 100% disallowance of Long Term Performance Plan (“LTPP”) which is a stock option incentive, with no cash outlay. Employee Stock Purchase Plan (“ESPP”) should not be recoverable in rates because MAWC is simply offering AWWC stock to its employees for purchase at a 15% discount. MAWC is only recording the discount on its books and is not actually paying out any cash for offering this incentive to its employees. (Niemeier, Direct-Rebuttal, p. 18:2-21:10) (Niemeier, Cross Rebuttal-Surrebuttal, p. 9:16- 11:16).

- b. Payroll: What is appropriate amount of payroll expense to be included in MAWC’s cost of service?

The appropriate amount of payroll expense to be included in MAWC's cost of service as of June 30, 2024 is \$46,720,634. (Lesmes, Corrected Accounting Schedule 9)

- c. Payroll Taxes: What amount of payroll tax should be included in MAWC's cost of service?

The appropriate amount of payroll tax expense to be included in MAWC's cost of service as of June 30, 2024 is \$3,529,250. (Lesmes, Corrected Accounting Schedule 9)

- 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?

The Pension expense should be \$771,117 and the OPEB expense should be a negative \$4,564,488 (Niemeier, Cross-Rebuttal Surrebuttal Accounting Schedule 9).

- ii. Should the pensions and OPEBs tracker be continued?

Yes. While tracker mechanisms are generally not appropriate for use in setting rates, trackers for pension expenses are a unique exception because of the possible significant cash flow implications to utilities if their pension funding requirements are materially different from their pension expense recovery levels in rates. Tracker mechanisms provide rate recovery for the exact amount of an expense and are specifically designed to consider increases and decreases to specific costs; in this instance, pensions. The balances of the regulatory liability account, i.e. tracker, for June 30, 2024 for pensions is \$6,987,814 (amortized over five years as an expense in the amount of \$1,397,563) and OPEBs is \$4,363,110 (amortized over five year as an expense in the amount of \$872,622). (Niemeier Direct-Rebuttal p. 24:4-27:3).

- 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?

Staff's O&M percentage for expense is 53.78% and capitalized at 46.22%. Staff determined this percentage using the capital and expense totals given by MAWC in response to Staff DR No. 0158, which comprised the 12 months ending December 31, 2023 (Branson Direct/Rebuttal, p. 13-14).

- 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?

The amount of employee benefits to be included in MAWC's cost of service as of June 30, 2024:

Group Insurance \$8,256,148.

401K \$1,353,677

Defined Contribution Plan (DCP) \$1,582,968

**Retiree Medical trust contributions (VEBA) \$32,659
(Lesmes, Corrected Accounting Schedule 9)**

Other Benefits \$221,416 (Lesmes)

Other Benefits \$659,422 (Niemeier)

(Cross-Rebuttal/Surrebuttal Testimony, Accounting Schedule 9)

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?

It is Staff's position that the same allocations used in the last case are sufficient for this one.

- 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?

It is Staff's position that the same allocations used in the last case are sufficient for this one . No, the CCOS filed by MAWC was based on a future test year, which includes estimated future expenses and revenues, and are therefore is invalid . The adjustments proposed by MEGC include assumptions as made by MAWC, and is are therefore also not reasonable. Special contracts should increase by the amount the other rates increase and their usage should not be separated out from the total company/district's usage. Marek Direct/Rebuttal page 3 lines 6-21.

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

Staff proposes no changes from its previous allocations.

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

Staff proposes no changes from its previous allocations.

- iii. How should purchased power expenses be allocated?

Staff proposes no changes from its previous allocations.

- iv. Rate J distribution multiplier

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

Staff proposes no changes from its previous allocations.

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

Staff has no objection to such a study.

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

Staff proposes no changes from its previous allocations.

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

Staff proposes no changes from its previous allocations.

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?

Staff's proposed rates are the most reasonable. Schedule MM-d2

c. 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?

Staff does not oppose this change.

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

No. It is Staff's position that single tariff pricing moves further away from the principle of cost causation. There is no benefit to customers in creating a single tariff rate. Marek Direct/Rebuttal beginning on page 4, line 14.

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

No. For reasons detailed in subpart i of this issue.

i. If so, should it be designated as a pilot program and should any changes to the proposed tariff be ordered?

As required by state statute, Staff believes that the UAT must be designated as a pilot program. (Glasgow Direct/Rebuttal, p 3-4) Also, the tariff for MAWC's proposed Universal Affordability Tariff should include the details of the program like the purpose of the program, how to apply for the program and how long the discount lasts. Currently the proposed tariff has no details of how the program works. (Glasgow Direct/Rebuttal, p 5-6)

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?

Staff is in support of quarterly meetings.

f. Billing Determinants - Normalized Residential Customer Usage: What is the appropriate methodology to calculate normalized residential customer usage?

Staff's method of a five (5) year average is the appropriate method as it utilizes actual data to support an annualized level of usage. Averaging the data over the most recent five-year period produces reliable data and evidence of recent trends in customer usage. As discussed earlier, many factors, such as more efficient appliances, conservation, irrigation, and climate change impact water usage.

These factors change over time; therefore, using the most recent five years of data provides for a reasonable determination of customers' usage habits, while avoiding using data too old to reflect the current situation. Furthermore, Staff's utilization of each service area's unique data is reasonable because the usage characteristics of each service area are different from the other service areas. (J. Robertson, Direct/Rebuttal Testimony, Page 6, Lines 1 - 6)

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?

Affiliates of MAWC should not receive preferential treatment. Rather, the affiliate should be treated as a third-party vendor who supply services to the utility. Staff recommends using the cash voucher expense lag of 39.91. The cash voucher expense lag is the average lag of all expense services, including contracted services. Therefore, the appropriate expense lag for support services is 39.91 (Niemeier, Direct-Rebuttal: p. 13:10-14:5).

Regulated utility companies routinely pay quarterly estimated taxes. It is Staff's understanding that MAWC pays AWWC estimated quarterly taxes as if MAWC would file its own tax returns. Because there is a cash outlay quarterly for taxes to AWWSC, Staff has included an expense lag for taxes that reflects quarterly payments (Niemeier: Cross Rebuttal-Surrebuttal p. 6:16-7:12). Therefore, the appropriate expense lag for federal income taxes is 35.5 and state income taxes 43.3 (Niemeier, Cross-Rebuttal Surrebuttal, Accounting Schedules, Schedule 8).

- ii. What are the appropriate billing lag days for CWC?

Due to reconciliation key that wasn't transferring properly, Staff cannot confirm the accounts receivable report, submitted in Staff's Data Request No. 0203, that were used to calculate the revenue lag for this case. If the revenue lag is inflated or deflated, the net lag for all 36 expense categories is inflated or deflated. Because the revenue lag cannot be verified for WR-2024-0320, Staff recommends using the last known, verified revenue lag of 45.7 from WR-2022-0303. In the calculation for revenue lag of 45.7 in WR-2022-0303, the billing lag days were 2.1 days. (Niemeier, Direct-Rebuttal p. 14:14-15:17).

- iii. What is the appropriate CWC to be included in the cost of service?

The appropriate CWC to be included in cost of service is a negative \$9,855,212. (Niemeier, Corrected Accounting Schedules 8)

- 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?

The appropriate amount of CIAC and Amortization of CIAC to include in MAWC's cost of service is \$443,050,275 and \$124,477,791, respectively. (Lesmes Corrected Accounting Schedule Cross-Rebuttal/Surrebuttal, p.3)

- c. Other Rate Base

- i. What is the appropriate amount of materials and supplies to include in MAWC's cost of service?

The appropriate amount of materials and supplies in MAWC's cost of service is \$12,962,400. Staff reviewed the account balance of the material and supplies from January 2021 through December 2024. Staff used a 13-month average of material and supplies ending June 2024. (Boronda Direct Rebuttal Testimony, pgs 2-3)

- ii. What is the appropriate amount of customer advances to include in MAWC's cost of service?

The appropriate amount of customer advances in MAWC's cost of service is \$1,930,945. Staff reviewed the account balance of the customer advances from January 2023 through December 2024. Staff used the customer advances account balance as of June 2024 as the annualized amount. (Boronda Direct Rebuttal Testimony, pgs 3-4)

- iii. What is the appropriate amount of prepayments to include in MAWC's cost of service?

Staff does not have a position on this issue.

- iv. What is the appropriate amount of prepaid pension asset to include in cost of service?

The prepaid pension asset balance is \$26,529,167 as of June 30, 2024 (Niemeier Direct Rebuttal p. 26:3).

- d. AFUDC: How should AFUDC be calculated going forward?

Staff does not have a position on this issue.

5. Production Costs & Other Expense Items

- a. Chemicals: What is the appropriate amount of chemical expenses to include in MAWC's cost of service?

The appropriate amount of chemical expense to include in MAWC's cost of service is \$18,621,664. (Sarver Cross-Rebuttal/Surrebuttal Testimony, pg 6)

Staff reviewed five years of data (ending June 30, 2024), if available, of chemical usage in the water treatment process to determine if the usage fluctuated upward or downward from year-to-year. If the usage showed a discernable upward or downward trend in the year-to-year level of review, then Staff used data from the 12 months ending June 30, 2024. If the trend was not discernable, then Staff used a five-year

average. Staff applied the normalized chemical expense to the five-year average for system delivery to calculate the annualized level of chemical expense for each district for every 1,000 gallons of water. Staff based an adjusted system delivery factor on system delivery after annualized water loss Staff used a five-year average of system delivery for all districts to normalize the water loss percentage. Staff applied this water loss percentage to the normalized level of system delivery to calculate chemical costs. Staff determined an actual system delivery based on the water loss percentage and Staff's annualized revenue usage. Staff used the current contract costs as of June 30, 2024. (Sarver Direct / Rebuttal Testimony, pgs. 13-15)

- b. Fuel and Power Expense: What is the appropriate amount of fuel and power expense to include in MAWC's cost of service?

The appropriate amount of fuel and power expense to include in MAWC's cost of service is \$15,375,898. (Sarver, Cross-Rebuttal/Surrebuttal Accounting Schedule 9)

Staff annualized the fuel and power expense for each district based on the test year expenses. The annualized amount was adjusted for any price changes that took effect during to the update period (June 30, 2024). Staff then developed a rate for fuel and power cost per 1,000 gallons of water for each district. This is calculated by taking the five-year system delivery divided by the annualized expense. Staff divided the annualized water usage (calculated by Staff for revenues) by the water loss percentage discussed above under System Delivery. The result (quotient) is Staff's adjustment to system delivery for fuel and power expense. Staff's annualized expense for fuel and power expense is the cost per 1,000 gallons of water multiplied by the adjustment for system delivery. (Sarver Direct / Rebuttal Testimony, pgs. 15-16)

- c. Purchased Water: What is the appropriate amount of purchased water expense to include in MAWC's cost of service?

The appropriate amount of purchased water to include in MAWC's cost of service is \$1,500,615.

Staff reviewed five years of historical usage for each of the water systems, except when a system had less than five years of data. Staff used the available data if a system had less than five years of data. Staff used a five-year average for water purchased from: the City of St. Louis to serve the St. Louis County district, Callaway County Water District #1 to serve Jefferson City, and City of Excelsior Springs to serve Lawson. Staff used 12 months ending June 30, 2024, usage for the following based on the trend increase or decreasing: Kansas City Water Services to serve Parkville, and Ozark Water System to serve Spring Valley. Staff used a three-year average for purchased water from the City of California to serve Hickory Hills because the first usage was billed in February 2021. Staff used 12 months ending June 30, 2024, for water purchased from PWSD #1 of Clinton County to

serve Lawson since the first usage was billed in December 2020, and the usage has been increasing. Staff used 12 month ending June 30, 2024, to determine an annualized level for Orrick. The water was purchased from PWSD #2 of Ray County. The first usage bill was billed in March 2022, and the usage has been increasing. Staff used 12-month ending June 30, 2024, for water purchased from PWSD #1 of Dekalb County for Stewartsville. The first usage bill was billed in March 2023. For all of the districts, Staff applied the most recent rates to the normalized usage. (Sarver Direct / Rebuttal Testimony, pgs 16-18)

- d. Waste Disposal: What is the appropriate amount of waste disposal expense to include in MAWC's cost of service?

The appropriate amount of waste disposal to include in MAWC's cost of service is \$5,734,971.

When analyzing data, there is an upward trend in cost of waste disposal. The 12-months ending June 30, 2024, best reflects the ongoing cost of waste management. (Sarver Direct / Rebuttal Testimony, pg 18)

- e. Water Loss Adjustment: What, if any, water loss percentage should be applied to system delivery to calculate chemical, fuel, and power expense? **Staff has calculated the following water loss levels: St. Louis County is 20.95% and All Other Water 20.53%. (Sarver Direct / Rebuttal workpaper)**

Staff used the data provided in response to Staff DR No. 0115 to calculate a five-year average for system delivery ending June 30, 2024, for each district, to normalize the water loss percentage based on fluctuations determined within the five years analyzed. Staff applied this water loss percentage to the normalized level of system delivery to calculate chemical, fuel and power expense. (Sarver Direct / Rebuttal Testimony pg 13)

- 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?

The appropriate amount of transportation expense and fuel expense to include in MAWC's cost of service is \$2,735,010. (Sarver, Direct-Rebuttal Testimony Accounting Schedule 9)

Staff reviewed three years of data (ending June 30, 2024) of transportation expenses by district to determine if the usage fluctuated upward or downward from year-to-year. If the usage showed a discernable upward or downward trend in the year-to-year level of review, then Staff used data from the 12-months ending June 30, 2024. If the trend was not discernable, then Staff used a three-year average. (Sarver Direct / Rebuttal Testimony pgs. 19-21)

- g. Rate Case Expense: Should rate case expense be shared between ratepayers and shareholders and, if so, how?

Yes, rate case expense should be shared. Staff recommends that MAWC's customers and shareholders equally share rate case expense. Staff recommends continuing to include in rate base 100 percent of the cost of the depreciation study MAWC submitted in Case No. WR-2020-0344.

This 50/50 sharing mechanism is consistent with the Commission's most recent decision concerning rate case expense in the Spire Missouri Case Nos. GR-2017-0215 and GR-2017-0216. The Missouri Supreme Court recently upheld the Commission's decision. (Spire Missouri, Inc. v. Pub. Serv. Comm'n, 618 S.W.3d 225, 233 (Mo. banc 2021). (Niemeier Direct-Rebuttal p. 30:19-34:7)

- i. What is the appropriate accounting treatment of rate case expense?

The appropriate accounting treatment of rate case expense is to normalize the expense over a three-year period to smooth out the fluctuating costs. It is and has been Staff's consistent position for all utilities that rate case expense be normalized, and not amortized. MAWC files a general rate case approximately every 36 months, as required by the water and sewer infrastructure rate adjustment ("WSIRA") statute. Normalizing rate case expense provides an incentive to control rate case expense, because a utility may or may not recover all of those costs through the normalized amount. Normalizing rate case expense rewards a utility for efficient operations that avoids the need to file rate cases more often than anticipated. (Niemeier, Direct - Rebuttal, p. 28:5-30:17).

- ii. Should MAWC recover expenses attributable to MAWC's lead/lag study?

Yes. Staff questioned the need for back-to-back CWC study, with only two years separation, from the onset of this rate case. Staff could find no ruling that stated how often a CWC study should be performed. Ultimately, Staff's position is that MAWC's choice to perform a CWC study is reasonable, after MAWC responded in DR No. 0242 that it was completed again because COVID-19 may have affected the results the CWC study submitted in WR-2022-0303. (Niemeier Cross Rebuttal, p. 7:19-9:14).

- iii. Should MAWC recover the unamortized rate case expense attributable to Case No. WR-2022-0303?

No. MAWC should not be allowed to recoup the remaining unrecovered rate case expense costs incurred from Case No. WR-2022-0303. Amortization refers to guaranteed recovery of an item in rates for the amortization period set, while normalization does not guarantee recovery by the end of the recovery period set. MAWC has identified \$200,141 in

unamortized costs from WR-2022-0303 that it would like to also include with WR-2024-0320 rate case expense. Ratepayers would be paying both simultaneously. If the Commission were to allow the unamortized rate case expense from prior rate cases into current rate case expense, it would create an imbalance between the revenues and expenses of the current rate case, which violates the matching principle.

Normalization assumes that the cost was smoothed, and that, depending on when a utility files its next rate case, it can recover the full or partial amount, of the expense through regulatory lag. Normalizing rate case expense rewards a utility for efficient operations that avoids the need to file rate cases more often than anticipated (Niemeier, Direct- Rebuttal, p. 28:5-30:17).

- 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?

The appropriate amount of office supply and services expense is \$858,165. (Accounting Schedules-Total Company-Cross Rebuttal-Surrebuttal Testimony-Accounting Schedule 9).

Staff annualized office supply and services expense and used trend analysis to reflect the test year on accounts with steady trends and a three-year average on accounts with no consistent trend. The three-year average for these accounts within the uniform's classification would better reflect an ongoing level of expense. (Branson Direct/Rebuttal, p. 4-5).

- i. Leases (Rents): What is the appropriate amount of transportation lease expense to include in MAWC's cost of service?

The appropriate amount to include in lease (rents) expense is \$ 367,307. Non-renewed leases should be removed from MAWC's cost of service as they will not reflect an ongoing expense to MAWC. MAWC also removed non-renewed leases in their workpaper (Niemeier Direct-Rebuttal p. 23:7-23:23).

- j. PSC Assessment: What is the appropriate amount of the PSC assessment to include in MAWC's cost of service?

The appropriate amount of PSC assessment expense to include in MAWC's cost of service is \$3,658,874. After identifying an increasing trend in annual PSC assessment fees, Staff annualized the PSC assessment expense by using the PSC assessment fee from the most recent State Fiscal year 2025. (Boronda Direct / Rebuttal Testimony, p 8-9)

6. Miscellaneous Expense

The appropriate amount of general miscellaneous expense to be included in MAWC's cost of service is \$2,489,855. (Lesmes Cross-Surrebuttal p. 4)

- a. Promotional Items: What is the appropriate amount of promotional items expense to include in MAWC's cost of service?

The appropriate amount of Advertising, Promotional Items, and Dues and Donations is \$98,955. (Branson, Accounting Schedules-Total Company-Cross Rebuttal-Surrebuttal Testimony-Accounting Schedule 9)

Staff reviewed all associated invoices provided by MAWC and disallowed expenses that were not required in order to provide safe and adequate service. Staff allowed expenses that provided general information that was useful for the provision of safe and reliable service. (Branson Direct/Rebuttal Testimony pgs. 5-8)

- b. Advertising: What is the appropriate amount of advertising expense to include in MAWC's cost of service?

See response to 6.a.

- c. Dues and Donations: What is the appropriate amount of dues and donations expense to include in MAWC's cost of service?

See response to 6.a.

- d. Charitable Contributions: What is the appropriate amount of charitable contributions to include in MAWC's cost of service?

\$0. Staff reviewed all associated invoices provided by MAWC and disallowed expenses that were not required in order to provide safe and adequate service. Staff allowed expenses that provided general information that was useful for the provision of safe and reliable service. (Branson Direct/Rebuttal Testimony pgs. 5-8 and Accounting Schedules-Total Company-Cross Rebuttal-Surrebuttal Testimony-Accounting Schedule 9).

- e. Lobbying: Has MAWC approved all lobbying expense from its cost of service?

Yes. MAWC removed all lobbying expense from its cost of service. (Lesmes Direct/Rebuttal, p. 5)

- f. Postage, Printing & Stationary Expense: What is the appropriate amount of postage, printing and stationary expense to include in MAWC's cost of service?

What is the appropriate amount of postage, printing and stationary expense to include in MAWC's cost of service?

The appropriate amount of postage, printing and stationary expense to include in MAWC's cost of service is \$41,993. (Lesmes, Direct-Rebuttal Testimony Accounting Schedule 9)

Staff analyzed the data provided by MAWC and then utilized a three-year average (three-years ending June 30, 2024) to represent an ongoing level of expense. (Lesmes, Direct/Rebuttal Testimony pgs. 9-10)

- g. **Bad Debt Expense:** What is the appropriate amount of bad debt expense to include in MAWC's cost of service?
The appropriate amount of bad debt expense is \$2,801,277. Staff reviewed five years of net charge-offs for the January 2019 through December 2023 period, excluding the 2020 net charge-offs from its calculations due to the impacts of the COVID-19 pandemic. Staff determined a three-year average of the net charge-offs for the three-year period ending June 24, 2024 was appropriate, due to bad debt expense varying greatly from 2014 to 2024 (Branson Direct/Rebuttal, p. 12-13).
- 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?**
MAWC does not own or maintain the section of Emerald Pointe pipeline owned by the City of Hollister. Therefore, it is inappropriate to include the regulatory deferral (unamortized balance) for these costs in rate base. It is inappropriate for MAWC to earn a return on an item it does not own; that was contributed to another entity, in which it has no outstanding investment; and is not an asset on the utility's books and records (Niemeier Direct-Rebuttal p. 34:9-36:10).
 - ii. **What amount should be included in Amortization of Regulatory Asset for expense?**
The appropriate amount to include for Amortization of Regulatory Assets is \$5,368,686. This amount does not include amortization associated with the property tax tracker or Regulatory Asset of AFUDC. (Niemeier Cross Rebuttal-Surrebuttal, Accounting Schedule 9).
 - iii. **Should MAWC receive a return on the total unamortized balance associated with lead service lines?**
Staff recommends including carrying costs at the long-term debt rate in the AAO balance, for lead service lines, but not to include any return on the total unamortized balance in the revenue requirement. Including carrying costs in the unamortized deferral balance at MAWC's long-term debt rate provides MAWC sufficient recovery of the costs to replace the customer owned LSLRs. Allowing MAWC to earn a return on customer owned lines would be unreasonable. (Niemeier, Cross Rebuttal-Surrebuttal p. 1:20 - 4:20).
- i. **Expiring Amortization Mechanism:** Should the Commission approve the Expiring Amortization Mechanism proposed by MAWC?
Staff has agreed to this type of treatment for other utilities in other rate cases. Staff recommends that any over or under recovery of a regulatory asset or liability should be treated in the same manner as the underlying regulatory asset or regulatory liability (Niemeier Direct-Rebuttal, p. 7:19 - 8:10).

7. Maintenance Expense

- a. Tank Painting/Engineered Coating: Should tank painting costs be treated as an expense or be capitalized?

These costs should continue to be treated as expense and not capitalized. Staff relied on the Missouri State Code of Regulation (CSR) for guidance in this treatment (McMellen Direct / Rebuttal p. 12:21-15:19).

- i. If expensed, what is the appropriate amount of tank painting expense? **These costs should be treated as expense and normalized using a five-year average (Branson Direct/Rebuttal, p. 11-12). The appropriate amount of tank painting expense is \$1,949,792. (Accounting Schedules-Total Company-Cross Rebuttal-Surrebuttal Testimony-Accounting Schedule 9) use to include in MAWC's cost of service?**
- ii. If expensed, should a tracker be continued? **No. Staff recommends that the tank painting tracker should be discontinued due to lack of extreme fluctuations. (McMellen Direct / Rebuttal p. 12:2-19)**
- iii. If capitalized, what is the appropriate amount of tank painting expense to remove from MAWC's cost of service? **See response to 7.a.i.**

- b. Building Maintenance and Services: What is the appropriate amount of building maintenance expense to include in MAWC's cost of service?

The appropriate amount of building maintenance expense is \$2,237,475. This represents the update period for building maintenance costs of the twelve months ending June 30, 2024. (Branson Direct/Rebuttal, p. 8-9)

- c. Hydrant Painting: What is the appropriate amount of hydrant painting to include in MAWC's cost of service?

Staff reviewed maintenance supplies and services which includes hydrant painting however this expense cannot be broken out. (Branson)

- d. Main Break Expense: What is the appropriate amount of main break expense to include in cost of service?

Staff reviewed maintenance supplies and services which includes main breaks however this expense cannot be broken out. (Branson)

- 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?

The appropriate amount of maintenance supplies and services expense, including main break, hydrant painting, and valve maintenance expense, is \$7,966,698. Staff determined this level by using a three-year average for the period ending June 30, 2024. (Branson Direct/Rebuttal, p. 9-11)

8. Income Taxes

- a. Excess ADIT (Amortization and Tracker): What is the correct amount association with the excess ADIT?

The net return to customers of excess federal and state ADIT of approximately \$8.8 million has been included in Staff's case. (Sarver Direct/Rebuttal Testimony pgs. 25-28)

- i. Should a NOL or a NOL remeasurement be recognized in excess ADIT?

Staff included the current balance of Excess ADIT, offset by the Excess NOLC in its revenue requirement. Staff's methodology is consistent with prior cases. (Sarver Cross-Rebuttal/Surrebuttal Testimony pgs. 2-3)

- b. Income Taxes: Should income tax expense be included in MAWC's cost of service?

Yes. Current income tax for this case has been calculated by Staff consistent with the methodology used in the six prior MAWC rate cases. (Sarver Direct/Rebuttal Testimony pgs. 22-23)

- i. If so, what is the appropriate amount of income tax expense?

\$20,404,124 (Sarver, Updated Accounting Schedule 9 and 11)

- ii. Should MAWC's income tax expense be subject to a tax gross-up?

Yes. If taxes are to be included in rates, there should be a tax gross-up applied to the overall revenue requirement (McMellen Cross Rebuttal-Surrebuttal p. 3:6-4:5).

- c. Accumulated Deferred Income Taxes (ADIT): What amount should be included in accumulated deferred income taxes?

Staff has included the ADIT balance as of June 30, 2024, in the amount of \$596,570,400 in rate base. (Sarver Direct/Rebuttal Testimony pgs 24-25)

9. ROE/Capital Structure/Cost of Debt:

- a. What is the appropriate return on equity to be used to determine the rate of return?

Staff recommends an authorized ROE of 9.5%, within a range of reasonableness from 9.25% to 9.75%, as indicated in Staff's Schedule KM-d16 in Kelli Malki's Direct / Rebuttal Testimony. Page 58, Line 3 and Schedule KM-d16, Malki's Direct / Rebuttal Testimony

- b. What capital structure should be used to determine the rate of return?

The most economical capital structure to use is the actual capital structure, as of June 30, 2024, of Missouri-American Water Company's ("MAWC") parent company, American Water Works Company, Inc. ("AWWC"). AWWC's actual capital structure is composed of 43.60% common equity, 0.01% preferred stock, and 56.38% long-term debt, as indicated in Staff's Schedule KM-d16 in Kelli Malki's Direct / Rebuttal Testimony. Staff will continue to monitor AWWC's and MAWC's

capital structures through the true-up period and will make its final recommendation at that time. Page 58, Lines 4-5 and Schedule KM-d16, Malki's Direct / Rebuttal Testimony

- c. What is the appropriate cost of debt to use to determine the rate of return?
The appropriate cost of debt to use in setting the prospective rates of MAWC is AWWC's cost of debt as of June 30, 2024 which was 4.22%, as indicated in Staff's Schedule KM-d7 in Kelli Malki's Direct / Rebuttal Testimony. Staff will continue to monitor AWWC's and MAWC's cost of debt through the true-up period and will make its final recommendation at that time. Page 58, Line 4 and Schedule KM-d16, Malki's Direct / Rebuttal Testimony

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

The appropriate amount of property tax to include in MAWC's cost of service is \$38,217,552. Staff reviewed the 2023 property tax invoices and payments to determine the property taxes expense. Staff will review 2024 property tax invoices and payments during true-up. (Boronda Direct / Rebuttal Testimony, p. 6-8)

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

The appropriate amount of credit card and e-check fees to include in MAWC's cost of service is \$1,702,498. Staff reviewed the number of customers paying by credit card and the number of customers paying by e-check from January 2023 through December 2024 provided by MAWC. To determine the credit card fees, Staff took the Paymentus contracted fee rates and multiplied them by the rate's respective number of rate payers as provided by MAWC. Staff annualized the amount by applying the formula to the 12 months ending June 2024. (Boronda Direct Rebuttal Testimony, pgs 4-6)

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

It is Staff's position that the charges contained in the testimony of Jody Carlson are the most reasonable charges for these services. Marek Direct/Rebuttal page 7, lines 3-11.

13. Special Contracts

- a. Should Liberty/Empire be placed on Rate J?

It is Staff's position that this proposal is reasonable. Marek Direct/Rebuttal page 8, lines 4-6.

- b. Should Chariton County PWSD #2 be placed on Rate B?

It is Staff's position that this proposal is reasonable. Marek Direct/Rebuttal page 8, lines 4-6.

- c. Does the special services contract between MAWC and Triumph Foods, LLC continue to be in the public interest?
It is Staff's position that the contract remains in the public interest. Staff intends a thorough review as part of MAWC's next rate case.
- d. Should the contract between MAWC and Triumph Foods, LLC continue to be approved by the Commission?
- e.
Staff has seen no evidence that would prevent Commission approval.
14. Acquisitions/Divestitures: Which recently completed or anticipated acquisitions and/or divestitures should be reflected in the revenue requirement?
Any acquisitions and/or divestitures after December 31, 2024 are considered discrete adjustments and should not be reflected in the revenue requirement (McMellen Direct / Rebuttal p 10:21-23).
15. Injuries and Damages: What is the appropriate amount to include in MAWC's cost of service for injuries and damages?
Staff agrees with MAWC's removal of the negative \$3,895 (Niemeier Direct Rebuttal p. 21:19).
16. Insurance (Other than group): What is the appropriate amount of insurance expense to include in MAWC's cost of service?
The appropriate amount of insurance expense is \$8,083,520 (Direct-Rebuttal Accounting Schedule 9). Staff used the most current receipts to calculate this expense. Staff plans to update in true-up for known and measurable increases (Niemeier Direct-Rebuttal, p. 22- 23:5).
17. Telecommunications Expense: What is the appropriate amount of telecommunications expense to include in MAWC's cost of service?
The appropriate amount of telecommunications expense is the test year amount of \$1,587,113 (Niemeier Direct-Rebuttal, p. 36:12-37:2).
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?
The appropriate amount of outside services to include in MAWC's cost of service is \$6,003,625. Staff reviewed all the outside services expense booked to the general ledger from July 1, 2019, through June 30, 2022. Staff also reviewed a sample of invoices and the engineered coating costs booked to outside services expense. After review, Staff calculated a two-year average of the outside services expense incurred during the 12 months ending June 30, for years 2023, and 2024. Then Staff removed the engineered coating costs from its average to determine its level of outside services expense. (Niemeier, Direct- Rebuttal, p. 15:20-16:18).

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

Staff proposes to use four allocation factors. These factors are based on customer count, operating revenue, net utility plant, and the Massachusetts formula. The Massachusetts formula is based on an average of customer numbers, employees, and net utility plant. All of these factors are based on 12-months ending June 30, 2024. Staff reviewed each account description to see which allocation factor is most reasonable to use. Using Staff's multiple allocation factors is more practical for allocating costs according to cost causation. (Sarver Direct / Rebuttal Testimony, pgs. 10 -13)

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

The appropriate amount of Service Company costs to include in MAWC's cost of service is \$32,790,185. (Accounting Schedule 11)

Other Staff witnesses have recommended adjustments to some Service Company costs allocated to MAWC, which are addressed in their direct / rebuttal testimony. (Sarver Direct / Rebuttal Testimony pgs. 7-10)

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

No. The Company's proposed paperless billing tariff sheets are in violation of Commission Rule 20 CSR 4240-13.015(1)(B), which requires customer agreement for paperless billing and thereby precludes opt-out paperless billing enrollment. Chapter 13 establishes paper billing as the default billing method for utilities. It allows for the possibility of paperless billing, but this is contingent upon the agreement of both the customer and utility. The Company's proposal does not seek customer agreement for paperless billing; instead it effectively changes the default to paperless billing and requires customer agreement for a paper bill (Thomason Direct/Rebuttal, p. 20-21: 18-21, 1-11).

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

1. The Company should be required to remedy the numerous issues customers have pointed out with its website prior to auto-enrolling customers in paperless billing. (Thomason Direct/Rebuttal, p. 10-13).

2. A minimum 90-day moratorium on disconnections and late fees after the auto-enrollment date.

3. A prolonged implementation timeline for the auto-enrollment from the first email notification (a minimum of 90 days) to give customers who infrequently check their email a larger time frame to see the notifications prior to auto-enrollment.

4. The Company should delay implementation until the summer months. Some customers, concerned about monitoring their summer usage, may be more likely to notice if they did not receive a paper bill during that time.

5. To reduce customer confusion, the Company should modify its communications to customers regarding the pending auto-enrollment. The email communications should be modified to remove references implying the email is directed to Auto-pay customers. The postcard should be modified to include language stating customers must email the Company with the email address associated with their MyWater account in order to be opted out (Thomason Direct/Rebuttal, p. 14-15).

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

Staff does not have a position on this issue.

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

Staff does not have a position on this issue.

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

Yes, MAWC should revise the maps and legal descriptions that are listed in Schedule DAW-d2 of Mr. Daronn Williams' Direct/Rebuttal testimony. Some maps do not provide sufficient detail to be legible, but of greater importance are updates to some legal descriptions that relied upon physical features that can change (such as plat maps), have changed (such as roads and intersections), or no longer exist (such as witness trees).

24. Depreciation

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

No. Staff is recommending the continued use of the depreciation rates that are currently in effect for MAWC as ordered in its last rate case, attached to Malachi Bowman's Direct/Rebuttal testimony in schedule MB-d2. (Bowman Direct/Rebuttal p. 4)

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

Yes, Staff recommends the Commission order MAWC to conduct a depreciation study prior to filing its next rate case. (Bowman Direct/Rebuttal p. 4)

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

The appropriate amount of depreciation expense is \$86,908,557. (Accounting Schedules-Total Company-Direct/Surrebuttal Testimony-Accounting Schedule 5)

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

The appropriate amount of depreciation reserve to include in MAWC's cost of service is \$639,477,162. (Accounting Schedules-Total Company-Cross Rebuttal-Surrebuttal Testimony-Accounting Schedule 2)

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

The appropriate amount of capitalized depreciation expense is \$530,931. Staff deducted capitalized depreciation based on the overall capitalization ratio Staff calculated from its total depreciation expense to arrive at the amount of depreciation expense associated with O&M related functions. (Branson Direct/Rebuttal, p. 4).

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

The appropriate amount of Plant in Service to include in MAWC's cost of service is \$4,385,153,219. (Accounting Schedules-Total Company- Cross-Rebuttal/Surrebuttal Testimony-Accounting Schedule 2)

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

The appropriate amount of customer accounting expense to include in MAWC's cost of service is \$403,547. (Lesmes Direct Rebuttal p. 4)

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

The appropriate amount of employee expense, accounts 52534000 to 52567000, to include in MAWC's cost of service for MAWC is \$584,267 and \$415,536 for Service Company (Niemeier, Direct-Rebuttal, p. 16:20-17:23).

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?

For water residential revenues, the June 30, 2024, meter count for St. Louis is 322,970 for monthly billed customers, all other water is 121,048, and flat rate is 266. (Sarver Cross Rebuttal/Surrebuttal workpaper)

For sewer residential revenues, the June 30, 2024 unit count for Arnold is 9,284 and all other sewer is 15,559. (Sarver Direct / Rebuttal Testimony workpaper)

Staff developed the minimum charge revenue by multiplying the number of meters or units as of June 30, 2024, for each meter class by the applicable minimum monthly charge as approved in MAWC's last general rate

proceeding, Case No. WR-2022-0303. The product of the number of meters multiplied by the applicable minimum charge was then multiplied by the number of billing periods in a year to produce the annualized minimum charge revenues for each customer class. (Sarver Direct / Rebuttal Testimony, pgs. 2-3).

Other Operating Revenue - Staff reviewed the totals for each of these revenue categories, by account, for the most recent five-year period, by district. If the totals showed a discernable upward or downward trend in the year-to-year level of review, then Staff used the data from the 12- months ending June 30, 2024. For rent, Staff based the totals on MAWC's response to Staff Data Request ("DR") No. 0110. MAWC provided the totals from rent based on contracts/agreements in effect as of June 30, 2024. (Sarver Direct/Rebuttal Testimony pgs. 5-6)

The normalized other operating revenues for MAWC is a total of \$3,961,442. (Sarver, Cross-Rebuttal/Surrebuttal Accounting Schedule 9)

Other Miscellaneous Revenues (Unbilled) - Staff eliminated all unbilled revenues MAWC booked within the test year in its revenue annualization computation. Unbilled revenue is revenue on MAWC's books that is recognized water sales that have occurred, but that MAWC has not yet been billed the sale to the customer. (Sarver Direct/Rebuttal Testimony pg. 6)

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?

It is Staff's position that Rule 3E should not provide MAWC with immunity from accidents when those accidents cause property damage. Based on advice from Staff Counsel, it is Staff's position that "contributory negligence" is no longer a legal defense to a damage claim in Missouri, and it should not be allowed to be used as a defense through a tariff sheet. Determination of negligence is the responsibility of civil court, not the Commission. Direct/Rebuttal Testimony of David A. Spratt.

30. Income Eligible Programs: Should MAWC begin holding quarterly meetings with Staff, OPC, and any other interested interveners on its current income eligible programs?

Staff does not have a position on this issue.

- a. Should MAWC's tariffs be adjusted to allow for fungibility between its income eligible programs?

Staff does not have a position on this issue.

31. RSM: Should the Commission approve a RSM for MAWC? If so, how should the RSM be structured in terms of:

No. Staff recommends that the Commission rejects MAWC's proposed RSM; however, if the Commission approves MAWC's proposed RSM, an acknowledgement of lower business risk to MAWC must be included via two

approaches. The first approach, is that the Commission adjust MAWC's approved ROW downward. The second approach and if the Commission is wary of lowering MAWC's ROE, the Commission can approve capital structure weighted more heavily on the debt side to reflect lower cost of debt an RSM may provide. These two approaches are recommended by Staff Witness Abbott, Direct Testimony, page 16, lines 3 through 13.

- 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?

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?

Yes. Staff recommends that MAWC provide drought resiliency plans similar to existing plans for the remaining uncovered service areas and file such plans with this case within one (1) year of the Commission Order for this rate case as recommended by Staff Witness Abbott, Direct/Rebuttal Testimony, page 6, lines 11 through 13.

- ii. Should the Commission require MAWC to update the plans if MAWC deems it to be necessary and file plans in subsequent rate cases?

Yes. Staff recommends that the plans be updated, as MAWC deems necessary, and the updates be filed with its subsequent rate cases as recommended by Staff Witness Abbott, Direct/Rebuttal Testimony, page 6, lines 13 through 15.

WHEREFORE, Staff respectfully submits this Statement of Positions for the Commission's information and consideration.

Respectfully submitted,

/s/ Casi Aslin

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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 21st day of February, 2025.

/s/ Casi Aslin