BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

MAWC'S STATEMENT OF POSITION

Comes now Missouri-American Water Company ("MAWC" or "Company"), and states the following to the Missouri Public Service Commission ("Commission") as its *Statement of Position* as to issues described in the *List of Issues, Order of Opening Statements, Order of Cross-Examination and Order of Witnesses* filed on February 14, 2025:

LIST OF ISSUES

1. Overview and Regulatory Policy

MAWC Position:

MAWC has a significant presence in Missouri. It provides water service to approximately 484,000 customers in more than 30 counties across the State with the largest concentration of customers in the areas of St. Louis County, Jefferson City, Mexico, Parkville, St. Joseph, Warrensburg, Joplin, and Branson. It also provides wastewater service to approximately 24,000 customer connections through nearly 90 wastewater systems across the State. This presence includes billions of dollars in infrastructure investments and the Company's support and partnership with local communities and organizations.

This filing is primarily driven by the significant capital investments that the Company made and will continue to make since its last base rate proceeding. Since the Company's last base rate case, MAWC has or will invest by the operational of law date in this case approximately $1.1 Billion of capital. These investments enhance the safety, reliability and resiliency of Missouri-

American's water and wastewater system, support customer service, and support the health, welfare, and economic wellbeing of the communities it serves.

The Company must be provided with the opportunity to earn a fair return on its investments and recover prudently incurred costs to continue to attract the necessary capital to support ongoing investments that will enable it to provide safe and reliable service to customers for years to come. However, most of MAWC's costs are fixed, while most revenue is variable, collected through volumetric rates charged on a per gallon basis. As a result, MAWC's ability to proactively invest in infrastructure to continue to serve the long-term best interest of customers is constrained.

MAWC's ratemaking proposals in this case are designed to at least partially address the constraints with the existing ratemaking structure. MAWC is requesting approval of a Revenue Stabilization Mechanism (RSM), a Production Cost Tracker, deferral mechanisms related to capital investments, as well as certain discrete adjustments beyond the historical test year period.

The Company's goal is to provide quality water and wastewater services as efficiently as possible today and into the future, and by doing so, to increase the value of the services that are provided to the customers. The Company's proposals in this case mitigate some of the impacts that a historical test year has on the Company's opportunity to earn its authorized return and properly recognize the plant and expense levels that will be serving MAWC's customers when the new rates take effect.

Svindland DT, All; RT/ST/SST, All.

a. Production Cost Tracker (if not RSM): Should MAWC be allowed to implement a production cost tracker?

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?

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?

MAWC Position:

a. Production Cost Tracker (if no RSM): If the Commission does not approve an RSM that includes a production cost tracker, it should separately approve a tracker mechanism for production costs. This tracker would allow any differences in production costs incurred and production costs in customer rates to be deferred to a regulatory asset or liability.

The relevant costs are related to things such as the costs of electricity at water treatment plants, the costs of chemicals to treat and clean the water before it is delivered to customers, sludge removal costs at a wastewater lagoon, and water purchased from a neighboring community to supplement our production capacity.

Similar to the Company's Pension & OPEB trackers that have been in place for nearly 15 years, the production cost tracker primarily consists of costs that are outside the Company's control. These are among the most critical costs incurred because they are essential for providing safe, clean drinking water to our customers and their families. This is not a discretionary expense the Company can choose to incur or not incur.

LaGrand DT, pp. 32-34; RT/ST/SST, pp. 33-36.

b. Rate Case Test Year—Discrete Adjustments: Discrete adjustments should be made for the following matters that will be known and measurable prior to the operation of law date in this case, proposed by MAWC:

- Utility plant in service (additions, net of retirements) that will be placed in service and be used and useful prior to the operation of law date in this case, including annualized depreciation and property taxes related thereto;

- Changes to the Company's capital structure through the operation of law date; and

- Selected known and measurable operating expense adjustments that will be in effect prior to the operation of law date.

The Company's proposed discrete adjustments are designed to include within MAWC's revenue requirement specific known and measurable amounts through the operation of law date in this case. Doing so will better reflect the Company's ongoing cost of service for the period in which rates set in this case will be effective.

LaGrand DT, pp. 16-18; Supp. DT, pp. 3-6 ; RT/ST/SST, pp. 8-12.

c. Regulatory Deferrals: The Company is proposing two regulatory treatments to reduce regulatory lag on plant investments. The first is deferred depreciation, and the second is the capitalization of post-in-service carrying costs.

These mechanisms would attempt to address regulatory lag experienced by the Company when utility investments are placed in service to provide benefits to customers. Such investments immediately result in depreciation, property tax and other expenses being incurred without ever being reflected in customer rates. This lag hinders the Company's ability to earn its authorized return.

To counter this impact, the Company proposes to begin depreciating the plant investments when they are placed in service, but rather than recognizing depreciation expense, the costs, net of retirements, would be recorded in a regulatory asset. At the time of the Company's next rate case, any deferred amounts would be amortized over a reasonable period, as determined by the Commission.

Similarly, the Company proposes to capitalize the post-in-service carrying costs, then the carrying costs on the eligible investments would be recorded to a regulatory asset and amortized over a reasonable period, as determined by the Commission in the Company's next rate case.

LaGrand DT., pp. 25-30; RT/ST/SST., pp. 24-31.

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 (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?

MAWC Position:

a. Incentive/Performance Compensation: Performance compensation should be included in MAWC's cost of service. Market-based total compensation, including an element related to earnings per share and other financial goals should be included in MAWC's cost of service because it is a reasonable and prudently incurred expense.

MAWC offers compensation that has allowed it to attract and retain customer-committed, dedicated and highly qualified employees. The Company's overall compensation philosophy is to provide employees with a total compensation package that is market based and competitive with those of comparable organizations with jobs of similar responsibility. As part of its compensation philosophy, MAWC has chosen to place a portion of its compensation at risk, driving continued performance across the enterprise. Specifically, the Company targets its total direct compensation (inclusive of base and at risk compensation) for each role near the market median (50th percentile). By using a combination of fixed base and at-risk compensation, MAWC ensures competitive market-based compensation for all employees, while continuing to motivate employees to achieve goals that will improve performance and efficiency for the benefit of customers.

Employee compensation is a cost of providing utility service, not unlike any other prudently incurred cost of service recoverable in rates. Employee compensation must therefore be assessed through the same lens as all other operating costs of the Company. The Company's total direct compensation expense is reasonable and prudently incurred and thus should be recoverable like all other costs of service.

Carlson DT, pp. 34-43; RT/ST/SST, pp. 6-22.
Mustich DT, All; RT/ST/SST, All.
Cifuentes DT, pp. 8-9; RT/ST/SST, pp. 11-16.

b. Payroll: The appropriate amount of payroll expense to include in MAWC's cost of service is an amount that includes the seven hundred sixty-three (763) full-time employees, twenty-eight (28) temporary summer employees, and ten (10) interns that represent the appropriate staffing level for the Company's water and wastewater operations represents.

Cifuentes DT, pp. 8-10; RT/ST/SST, pp. 7-9.
Carlson DT, pp. 32-34; RT/ST/SST, p. 2-6.

c. Payroll Taxes: Payroll tax expense is directly related to salaries and wages. Two types of taxes are required to be paid in accordance with the Federal Insurance Contributions Act – Old Age Survivors and Disability Insurance ("OASDI," or more commonly "FICA"), and Hospital Insurance (or more commonly "FICA Medicare"). Federal Unemployment Tax ("FUTA") and State Unemployment Tax ("SUTA") must also be paid. Pro forma payroll taxes were calculated on a position-by-position basis, using current 2024 tax rates and pro forma wages for the true-up period ending December 31, 2024, and the discrete adjustment applied to the period ending May 31, 2025. The tax rates include 6.2% FICA on up to $168,600 of wages, $1.45% FICA Medicare on all wages and an additional 0.9% on wages greater than $200,000, and 0.6% FUTA on the first $7,000 in wages.

Cifuentes DT, pp. 15-16; RT/ST/SST, pp. 28-29.

d. Employee Benefits (Pensions and OPEBs): The appropriate amount of Pensions and OPEBs to include in MAWC's cost of service are reflected in the testimony of Company witness Manuel Cifuentes, Jr. Further, the tracker related to these costs should be continued to protect customers and the Company from the wide variations that can exist in expected costs because of the dependence upon market conditions and the resulting volatility.

Cifuentes DT, pp. 14-15; RT/ST/SST, pp. 17-18.

e. O&M for Labor/Capitalization: The O&M expense percentage should use a three (3) year average of labor and labor-related costs as proposed by MAWC. Using an average in this situation provides a more accurate method to mitigate variability (year-over-year) which smooths for uncertainty while setting costs to the appropriate level that are reasonably predicted to occur.

Cifuentes DT, pp. 9-10; RT/ST/SST pp. 18.

f. Employee Benefits (Group Insurance, 401k, etc.): Employee Benefits (Other than Pensions and OPEBs) includes MAWC's 401k expenses, the Defined Contribution Plan (DCP), the Volunteer Employee Benefits Association (VEBA), and the Employee Stock Purchase Plan (ESPP).

<u>401k</u> - MAWC incurs 401k expense when it matches employee contributions to 401k retirement accounts. The 401K benefit expense should be calculated multiplying the employee's "base pay" by the Company's applicable matching percentage factor. An expense in the amount of $1,289,816 should be included for 401k.

<u>DCP</u> – DCP is a retirement savings program for employees not eligible for the defined benefit pension program. Under the DCP, Missouri-American contributes an amount equal to 5.25% of an employee's base pay into a retirement account. An expense in the amount of $1,360,396 should be included for DCP.

VEBA – Collective Bargaining Unit employees, who are not eligible for OPEB, are entitled to Company-provided retiree medical benefits. MAWC has set up a trust (referred to as the Voluntary Employee Benefits Association, or VEBA) to fund this benefit in the amount of $600 per eligible employee. An expense in the amount of $148,646 should be included for VEBA.

ESPP -. ESPP expense relates to the Company funded fifteen percent (15%) discount of American Water stock purchases made through payroll deductions by enrolled employees. The ESPP is open to all active, full- or part-time employees and is effectuated through payroll deductions. Although not a specific cash outlay, the stock discount is a recorded expense on the books of the Company and a compensation benefit to employees. Just like the other benefits the Company provides to its employees, the ESPP is part of an employee's overall compensation, and a normal and reasonable expense that should be included in the Company's labor and labor related expenses as part of the Company's cost of service. MAWC's cost of service should include $121,307 for the cost of the ESPP.

Cifuentes DT, pp. 13-14; RT/ST/SST, pp. 9-10.
LaGrand SDT, Sched. BWL-1.

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

a. CCOS, and Revenue Allocation:

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

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?

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

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

iii. How should purchased power expenses be allocated?

iv. Rate J distribution multiplier:

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

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

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

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

b. Rate Design (other than Single Tariff Pricing): What are the appropriate rate structures and rate designs for MAWC customers? What are the appropriate customer charges? What are the appropriate commodity rates?

c. Meter Consolidation: Should the Commission grant MAWC's proposal to consolidate the fixed monthly charge for 5/8-inch and ¾-inch meters to a proposed fixed charge?

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

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

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?

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

MAWC Position:

a. **CCOS, and Revenue Allocation:** The Commission should use the Company's proposed cost of service study using the Base Extra Capacity method and the two-step method of allocation. This study was conducted pursuant to the American Water Works Association Rates Manual M1 and is consistent with how the Company's prior cost of service studies have been conducted. For the purpose of allocating transmission mains and distribution mains to customer class, mains with a diameter of 10 inches or larger should be considered transmission mains. This is consistent with how mains have been allocated in cost of service studies for at least 17 years, and to do otherwise would result in a significant shift of cost to the residential class compared to previous studies. The Company has used the appropriate method for developing the distribution multiplier for Rate J, however there was a correction noted for the St. Louis County Rate J distribution multiplier in Mr. McClellan's rebuttal testimony at page 26. The Company also found it appropriate to revise the All Other Missouri district Rate J distribution multiplier as noted in Mr. McClellan's rebuttal testimony at page 27. Regarding operating costs, water treatment costs should not be allocated to Public Fire because Public Fire does not cause the need for water to be potable. Also, purchased power costs should be allocated to customer class on the basis of consumption, as there is little correlation between increases in pumping requirements to meet peak customer demand and increases in purchased power costs because of the Company's ability to utilize water storage facilities and pump water during off-peak hours. Regarding system load factors, the Company's system load factors should be approved. It is not unreasonable for the system load factors to move up or down over time, and the most likely relationship between the maximum day and average day going forward is the use of a three-year average. The proposed revenue increase should be allocated as follows: Increases to St. Louis County Rate J for usage above 450,000 gallons should be capped at 75% of system average. The remaining Rate J usage above 450,000 gallons should be capped at 50% of system average. Private Fire should be capped at 125% of system average. Rate B should be set at cost of service. The remaining increase should be spread to Rate A usage and Rate J usage for usage less than or equal to 450,000 gallons as proposed by the Company. Allocation of the revenue increase on an across-the-board basis by district would not move the customer classes closer to cost of service.

McClellan DT, pp. 4-23; RT/ST/SST, pp. 20-33.

b. Rate Design (other than Single Tariff Pricing): The Company has proposed a change to the Rate J rate design that would introduce a declining block rate structure. This change to a declining block structure for Rate J should be approved to realize several benefits including the avoidance of perverse incentives for customers to increase consumption in order to qualify for Rate J, given that the single volumetric rate for Rate J is significantly below the volumetric rate for Rate A. As such, there should be a volumetric rate for consumption below 450,000 gallons per month, the usage threshold to qualify for Rate J, and a second, lower, volumetric rate for consumption above that figure. The 5/8" monthly meter charge should be increased for all customers to move closer to fixed cost of service.

McClellan DT, pp. 28-31; RT/ST/SST, pp. 53-55.

c. Meter Consolidation: For Rates A, B, and J, the Commission should combine the fixed charges for 5/8-inch and 3/4-inch meters into a single rate. The 5/8-inch and 3/4-inch meters are used for typical residential customer connections and have similar physical characteristics. Combining these meters into a single fixed charge class would allow the Company to standardize over time on a single meter without a financial impact to either the customer or the Company and would create a rate based more on customer needs and usage rather than the anomaly of which meter has been historically used. Combining the meters would simplify the rate structure currently in place and make it more easily understandable for the customers.

Carlson DT, pp. 43-45.
McClellan DT, p. 30.

d. Single Tariff Pricing: The Commission should approve nearly complete movement to single tariff pricing ("STP"). The volumetric rate for Rate A should move to full STP. The volumetric rate for Rate J should move closer to STP. The meter charge should be at full STP. The concept of STP has already been established as a part of the Company's rate structure, and the Company has been moving closer to full STP over the past four rate cases. The differential in volumetric rates for Rate A are already very close, and so now is the time to finalize the consolidation of these rates. Different costs to serve customers in different geographic locations will exist regardless of whether those locations are part of one interconnected system. Accordingly, there is no cost of service rationale for rejecting the Company's proposal.

McClellan DT, pp. 27-28; RT/ST/SST, pp. 31-43.

e. Universal Affordability Tariff ("UAT"): A UAT for water and wastewater service that includes multiple tiers of discounts based on different levels of household income stated as multiples of the Federal Poverty Level ("FPL") should be approved as proposed by the Company. This will result in the expected bill for Basic Water Service (50 gallons of water per household member per day) and corresponding wastewater service for all participating customers will be no more than 2% of their annual household income. These discounts improve the affordability of service to MAWC's most vulnerable customers. From a cost causation perspective, it is cheaper on a per unit basis to provide Basic Water Service than it is to provide peakier seasonal service. Furthermore, the data show that there is a positive correlation between household income and the seasonal use of water. This means that higher income households are more likely to have significant amounts of seasonal discretionary water use in the summertime and lower income households are much less likely to have significant amounts of seasonal water use and are therefore more likely to be Basic Water Service customers. Because the UAT is supported by cost of service principles, there is no need to approve the program on a pilot basis and there is no undue discrimination regarding higher income customer groups. The costs of the program (including the discounts) should be recovered through the Company's proposed revenue stability mechanism (RSM) because these costs are primarily revenue related.

Rea DT, pp. 22-38; RT/ST/SST, pp. 19-27.

f. Billing Determinants - Normalized Residential Customer Usage: The appropriate methodology to calculate the normalized residential customer usage for the development of billing determinants should be established using the Company's approach of using a statistical linear regression analysis to model monthly residential usage over an historical 10-year period for both St. Louis County and non-St. Louis County customers and uses that statistical analysis to normalize the effects of weather usage anomalies and COVID 19 to project residential use for the twelve month period ended December 31, 2023. The same analysis is used to project the usage on a forward basis on the identified trends in usage for the 12-month periods ended December 31, 2024 and May 31, 2025. The model produces excellent measures of statistical significance using the measures of R-squared value and t-statistic. This is the same model used in the most recent rate case. The Company's analysis is the only statistical analysis presented and demonstrates a pervasive downward trend in normalized use per customer for both St. Louis County and non-St. Louis County residential customers during the entire ten-year historical period. Use of a multi-year average over the last few years ignores the effect of that pervasive downward trend and assumes that each of the last several years is representative of what usage is likely to be going forward.

McClellan DT, pp. 33-53; RT/ST/SST, pp. 3-17.

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?

MAWC Position:

a. CWC: The expense lag days for Support Services should be a negative 5.6 day expense lag. The expense lag for Current Federal Income Tax and Current State Income Tax should be a 35.6 day expense lag as utilized by both the Company and Staff. The billing lag days should be a 48.7 day revenue lag. Further, the Revenue lag days utilized by the Company should be 48.7 days. The appropriate CWC to be used in the calculation of rate base after consideration of discrete adjustments, is ($4,871,618).

Walker DT, All; Walker RT/ST/SST, All.
LaGrand SDT, Sched. BWL-1.

b. Contributions in Aid of Construction (CIAC)/Amortization of CIAC: MAWC's calculation of CIAC is found on Schedule CAS-6 Customer Advances and Contribution in Aid of Construction. The Company disagrees with how Staff calculated CIAC in its direct and cross testimony. In its calculation of accumulated CIAC amortization, Staff used an incorrect (+/-) sign for the corporate portion of the beginning balance which should have been ($23,082). In calculating the CIAC balance, Staff includes the amortization portion in its beginning balance for CIAC, which results in a double count as the amortization portion is already accounted for in the accumulated amortization of CIAC. The appropriate amount of CIAC and amortized CIAC to be used in the calculation of rate base after consideration of discrete adjustments is $347,846,815.

Grisham Dir., pp. 5-6; Grisham RT/ST/SST, pp. 6-7.
LaGrand SDT, Sched. BWL-1.

c. Other Rate Base:

Materials and Supplies. Materials and supplies should be based on a 13-month average balance ending December 2024. The appropriate amount of materials and supplies to include in MAWC's rate base, with discrete adjustments, is $13,759,507.

Grisham DT, p. 7; RT/ST/SST, pp. 7-8.
LaGrand SDT, Sched. BWL-1.

Customer Advances. This issue is combined with CIAC for the Company (Issue 4 b above). Schedule CAS-6 Customer Advances and Contribution in Aid of Construction ("CIAC") contains the Company's position prior to True-Up. With discrete adjustments, the Company proposes that rate base be reduced by $1,927,094, for Customer Advances.

Grisham DT., p. 7; RT/ST/SST., pp. 7-8.
LaGrand SDT, Sched. BWL-1.

Prepayments. The appropriate amount of prepayments to include in MAWC's cost of service is $0.

LaGrand SDT, Sched. BWL-1.

Prepaid Pension Asset. The pension asset measures the accumulated difference between the pension expense accrued to date and the actual cash contributions to the pension fund to date. The appropriate amount of prepaid pension asset to include in rate base is $29,455,158.

Grisham DT, p. 7.
LaGrand SDT, Sched. BWL-1

d. AFUDC: The Allowance for Funds Used During Construction (AFUDC) rate should be calculated each month based on actual balances during the prior month for short term debt, long term debt, preferred stock and equity. The actual interest expense, along with the amortization of debt costs, should be used to determine an actual cost of debt. The AFUDC equity rate should be Commission decisions or settlements in prior cases.

LaGrand, DT, pp. 30-32.

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?

MAWC Position:

a. Chemicals: MAWC uses chemicals to bring chemical and biological contaminants within safe levels, as prescribed by the United States Environmental Protection Agency ("EPA") in accordance with the Safe Drinking Water Act. Chemicals are also utilized to remove turbidity (cloudiness) of the water and to address any remaining taste or odor issues, and for wastewater treatment. Chemical expense should take into account the most recent pricing available, Miscellaneous Chemicals, known process changes and acquisitions that have closed. Ultimately, Chemical expense will be adjusted based on the appropriate system delivery/usage levels as determined by the Commission.

Cifuentes DT, pp. 7-8; RT/ST/SST, pp. 5-6.

b. Fuel and Power Expense: Fuel and power expense is composed of costs associated with treating, pumping, and distributing water and collecting and treating wastewater. MAWC purchases electricity, natural gas, and miscellaneous fuel from third parties to support this production. Fuel and Power expense should take into account the most recent pricing information available, known process changes and acquisitions that have closed. Ultimately, Fuel and Power expense will be adjusted based on the appropriate system delivery/usage levels as determined by the Commission.

Cifuentes DT, pp. 6-7; RT/ST/SST, p. 5.

c. Purchased Water: Purchased Water expense includes costs for purchasing water from other entities. These entities include KC Water Services, City of Excelsior Springs, City of St. Louis, Ozark Water System, Callaway County District #1, City of California, PWSD #1 of Clinton County, PWSD #2 of Ray County, and PWSD #1 of Dekalb County. Purchased Water expense should take into account the most recent pricing available and acquisitions that have closed. Ultimately, it should be adjusted based on the appropriate system delivery/usage levels as determined by the Commission.

Cifuentes DT, pp. 5-6; RT/ST/SST, pp. 3-4.

d. Waste Disposal: MAWC incurs waste disposal costs as a result of the need to properly dispose of sludge and other by-products resulting from water and wastewater treatment. MAWC treats waste disposal in some areas, while in others, specifically related to wastewater, MAWC uses a third party for treatment. Sludge removal and lagoon cleaning for MAWC occurs on a cycle ranging from monthly to several years. The appropriate level of waste expense should start with historical average of expense for the 12-month calendar periods ending 2021, 2022, and 2023, and normalized costs based on waste disposal costs incurred and the frequency of the cleanings by individual location, as was done by MAWC.

Cifuentes DT, p. 8; RT/ST/SST, p. 6.

e. Water Loss Adjustment: The water loss percentage should be determined by using a three-year average water loss percentage (as done by both MAWC and Staff). However, the appropriate system delivery/usage levels as determined by the Commission should be used to determine normalized system delivery.

McClellan DT, p. 57.

f. Transportation Expense and Fuel Expense: The Company's (3) year historical average of actual expenses for the twelve months ended December 31, 2021, December 31, 2022, and December 31, 2023, should be used to calculate the transportation and fuel expense. The appropriate amount of transportation & fuel expense to include in the Company's cost of service is $3,626,997.

Cifuentes DT, p. 22; RT/ST/SST, p. 27.
LaGrand SDT, Sched. BWL-1.

g. Rate Case Expense:

<u>*Shared Expenses*</u> – Rate case expense should not be "shared." The Company is cautious and careful when submitting rate case expense, and no party has questioned the reasonableness of the Company's costs to litigate this rate case. Other than the costs of the lead/lag study referenced below, there is no evidence questioning the reasonableness of the Company's costs to litigate this rate case and it should be able to fully recover these costs.

Further, full recovery should be allowed for costs related to required customer notices and costs related to Staff viewing workpapers of the Company's external auditor.

LaGrand RT/ST/SST, pp. 18-19

Accounting Treatment – Rate case expenses should be amortized over a two year period. This approach calls for the costs to be accumulated in a regulatory asset as they are incurred, and then the prudent costs amortized over a period that recognizes a portion of those costs each year. Using normalization requires the Company to recognize as expense the entirety of rate case expense as it is incurred, which will create a mismatch of when the cost is incurred and when it is included in rates. The Company has proposed a total of $1,040,000 of total costs for this case. This includes $351,277 for the required customer notice communications in this case. Additionally, there are $688,723 in costs related to other aspects of preparing and completing a rate case. The Unamortized Rate Case Expense is described below.

LaGrand DT, p. 44, LaGrand RT/ST/SST, pp. 15-16.

Unamortized Rate Case Expense – MAWC should be allowed to amortize the remaining $23.715 of unamortized costs associated with the depreciation study completed in Commission Case No. WR-2020-0344 and $200,141 of unamortized costs from Case No. WR-2022-0303 over two years. Including these costs, the total regulatory expense that should be included in the cost of service is $631,928.

LaGrand DT, pp. 44-47; RT/ST/SST, pp. 15-17.

Lead/Lag Study – The Company should be allowed full recovery of the lead lag study performed by Company witness Harold Walker. A complete lead lag study was appropriate to reflect recent data to support the company's cash working capital claim in this case. Further, it was appropriate to update the lead lag study from Case No. WR-2022-0303 because that study included data that was heavily impacted by the COVID-19 pandemic.

LaGrand RT/ST/SST, p. 20.

h. Office Supplies and Services Expense: The operating expense for office supply and services are those expenses related to software licenses, bank fees, and various miscellaneous office supplies. The appropriate amount of office supply and services expense to include in MAWC's cost of service is $910,815, based on a 3-year average and with discrete adjustments.

Grisham DT, p. 12; RT/ST/SST, pp 13-14.
LaGrand, SDT, Sched. BWL-1.

i. Leases (Rents): MAWC incurs rent expense for copy machines, other miscellaneous items, and three office locations: one at 727 Craig Road, St. Louis, Missouri, one at 1050 Fox Chase Industrial Court in Arnold, Missouri; and one at 25 Truitt Drive, Eureka, Missouri. The appropriate amount of leases(rents) to include in MAWC's cost of service, with discrete adjustments, is $379,745.

Grisham DT, p. 9-10; RT/ST/SST, p. 16.
LaGrand, SDT, Sched. BWL-1.

j. PSC Assessment: The PSC Assessment fee should be based on the five-year average expense derived from years 2019-2023 actual expense paid. The five-year average expense should then be adjusted to determine the current and future test year expense amounts. This amount is $2,567,448 as of the true-up date.

LaGrand DT, Sched. BWL-3 (page 97).

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?
i. Expiring Amortization Mechanism: Should the Commission approve the Expiring Amortization Mechanism proposed by MAWC?

MAWC Position:

Promotional Items: The Commission should not exclude the amount proposed by Staff because the Company appropriately designated them as miscellaneous expense, community relations expense or office supplies because the items are used to educate customers on specific topics such as water safety and customer service contact information.

Cifuentes DT, p. 21; RT/ST/SST, p. 26.

Advertising: This issue refers to what MAWC calls its customer education, community relations, and community partnership expenses. The appropriate amount of these expenses to include in MAWC's cost of service is $2,693,717. Using the figure recommended by MAWC would encourage more corporate community engagement.

Cifuentes DT, p. 21; RT/ST/SST, pp. 24-27.

Dues and Donations: The appropriate amount of dues and donations expense to include in MAWC's cost of service is $0 for donations and $334,894 for membership dues. The Commission should include these costs in the Company's cost of service because MAWC's customers receive benefits associated with its participation in these organizations through employee training and education.

Cifuentes DT, p. 21; RT/ST/SST, pp. 26-27.

Charitable Contributions: The appropriate amount of charitable contributions to include in MAWC's cost of service is $119,213 (CAS-13 Adjustment as of 5/31/2025), of which $67,550 of grants were made for firefighters and hydration stations because these grants provide benefits to MAWC customers and communities.

Cifuentes DT, p. 21; RT/ST/SST, p. 25.

Lobbying: MAWC believes that it has removed all booked lobbying expense from its cost of service.

Cifuentes DT, p. 21; RT/ST/SST, p. 3.

Postage, Printing & Stationary Expense ("PPS"):

The operating expense related to PPS includes back-office postage, printing and shipping costs not included in Customer Accounting or Service Company expense. To calculate PPS expense, the Commission should utilize a three (3) year average of actual PPS expense from 2021 through 2023.

Grisham DT, p. 13; RT/ST/SST, p. 13.

Bad Debt Expense/Uncollectibles: Uncollectible expense is made up of net charge-offs associated with bad debt related to billed revenues. The appropriate amount of bad debt expense to include in MAWC's cost of service should be derived by utilizing a 3-year average of expense for the years 2021, 2022, and 2023, and then applying the 3-year average to present rate and proposed rate revenues to develop the on-going level of expense that will be applicable to the filed revenue requirement.

Grisham DT, pp. 8-9; RT/ST/SST, pp. 16-17.

Amortization of Regulatory Assets:

Emerald Pointe - In order to eliminate a failing sewer treatment plant, Emerald Pointe built a pipeline to a treatment plant owned by the City of Hollister (See Commission Case No. SA-2012-0362). As part of its agreement with the City of Hollister, Emerald Point was required to contribute to the City the portion of the pipeline within the Hollister city limits. The construction costs associated with that portion of pipeline were $323,321.

Prior to MAWC's acquisition of Emerald Pointe, the unamortized cost of the pipeline was given rate base treatment by the Commission, which MAWC continues to rely upon in accounting for the pipeline's costs. The Commission should order in this case such rate base treatment of the unamortized balance.

Grisham DT, pp. 13-14; RT/ST/SST, p. 8-9.

Amortization Expense - The adjustments to amortization expense (Schedule CAS-9, line 33) are the annual amortization expense on new items in addition to items from MAWC's previous rate case that are included in the current base year, such as customer owned lead service line replacements, Arnold sewer, the Hollister pipeline, the low-income program costs, Rogue Creek water and sewer, costs incurred to operate the City of Purcell's water and sewer system, tank painting tracker, and for the balance of the property tax tracker. The appropriate amount of amortization expense to include in the Company's cost of service is $11,361,571, inclusive of the amortization on the deferral of customer owned lead service lines discussed below.

Grisham DT, pp. 13-14; RT/ST/SST, p. 11-12.
LaGrand, SDT, Sched. BWL-1.

Lead Lines - For the customer owned lead service line replacements, the Company is proposing a ten (10) year amortization period. Further, the Company's long-term debt rate should be applied to the unamortized balance associated with lead service lines when determining the revenue requirement.

Grisham DT, pp. 14-15; RT/ST/SST, p. 12.

Expiring Amortization Mechanism: The Company is proposing a mechanism to address the amortization of regulatory assets and liabilities that fully amortize between rate cases so that neither the Company, nor the customer, will be harmed or benefitted by the timing of an expiring amortization. When any regulatory asset or liability account is fully amortized between rate cases, the Company will continue to record the amortization. However, instead of being recognized on the income statement, that amortization will go to a new regulatory account solely for the purpose of capturing excess amortizations. In the next rate case, the balance in this new regulatory account would be amortized over 5 years. In each successive rate case, this would be repeated.

LaGrand DT, pp. 47-49.

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?

MAWC Position:

a. Tank Painting/Engineered Coating:

Accounting Treatment –

The Company should be permitted to capitalize investments in Engineered Coatings in USOA account 342, and to depreciate those assets over 20 years. The rehabilitation of water storage tanks is essential to extending the life of a critical water system asset, the storage tanks. Without this work, the structural and environmental integrity of tanks would degrade quickly after the initial coating systems begin to fail and the service life of the tanks would be much shorter. Similar to other capital work on long-lived assets such as the rehabilitation of a high-service pump, the tank coating has a significant service life of 15 to 20 years of its own and it maintains the continued functioning of the original asset.

If the capitalization of these costs is not approved, the Commission should continue authorization for MAWC's tank painting tracker established in Case No. WR-2022-0303 and allow the Company to continue to track the actual costs against a level of expense included in rates.

Cost of Service –

If the costs associated with engineered coatings are not capitalized, $3,403,123 should be included as an expense in MAWC's cost of service. These structures are continuing to age and many of these tanks are nearing the life expectancy of their existing coating systems. Many others tied to recent acquisitions have not been properly maintained for some time and will require new coating systems to extend the life of the structure.

Grisham DT, pp. 10-11.
Lueders DT, pp. 4-11; RT/ST/SST, pp. 2-8.

b. Building Maintenance and Services: The operating expense associated with building maintenance and services are those expenses associated with groundskeeping, security, trash, janitorial expenses, building electricity, heating, and other related costs. With the long term upward increasing trend of actual expense and the current inflationary environment, the

Commission should include an expense level of $ 2,136,791, which best represents an updated and normalized level of expense, with discrete adjustments, through the true-up cutoff date and recognizes the impact of rising costs, as articulated and agreed upon by Commission Staff and MAWC.

Grisham DT, p. 10; RT/ST/SST, p. 16.
LaGrand SDT, Sched. BWL-1

c. Hydrant Painting: MAWC does not specifically separate out hydrant painting from other maintenance, it is included in Maintenance Supplies and Services. No party to this case took issue with MAWC's expense related to hydrant painting.

d. Main Break Expense: Main break expense is included in Maintenance supplies and services expense. No party to this case took issue with MAWC's expense related to Main breaks.

e. Maintenance Supplies and Services: Maintenance supplies and services expense, excluding engineered coatings should be included in the Company's cost of service. Engineered coatings should be capitalized as described above. Due to the trend of increasing costs, the Company's maintenance expense should be calculated using the test period normalized expense level and updated through the true-up cutoff date with discrete adjustments, therefore , the appropriate level of expense is $ 11,361,571 .

Grisham DT, pp. 10-11; RT/ST/SST, pp. 15-16.
LaGrand SDT, Sched. BWL-1

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?

MAWC Position:

a. Excess ADIT (Amortization and Tracker): The Regulatory Asset for Net Operating Loss Remeasurement should continue to be included in the calculation of Excess ADIT. As with all other deferred tax assets and liabilities, the NOL deferred tax asset was remeasured when the tax rate decreased with the TCJA in 2017. For a regulated utility, the remeasurement, not the NOL itself, is recorded into a regulatory asset and is amortized through deferred tax expense based on the Commission's order in Case No WR-2020-0344 and based on the normalization requirements of the Internal Revenue Code. To ignore the Regulatory Asset would create a normalization violation for the portion deemed protected under the Internal Revenue Code. The EADIT tracker is included as part of the Company's Accumulated Deferred Income Taxes.

Schlessman RT/ST/SST, pp. 5-12.

b. Income Taxes: Consistent with past practice, both the current and deferred portion of income tax expense should be reflected in MAWC's cost of service. The deferred portion should be included in deferred income taxes as an offset to rate base, again, consistent with past practice. This has the effect of "normalizing" timing differences created by the Internal Revenue Code. The calculations of deferred and current income tax expense have been done consistently with several recent cases. The Company did include in its calculation of current income tax expense the deduction for forecasted retirements in 2024 and 2025, consistent with prior cases, and has also included the deduction in the calculation of deferred income tax. Further, the revenue increase should be subject to gross up for income tax. Failure to do so would ignore the deferred portion of income tax expense. For the same reason, the incremental revenue requirement in WSIRA filings should be grossed up for current and deferred income tax expense.

Schlessman RT/ST/SST, pp. 4-5, 13-14.

c. Accumulated Deferred Income Taxes (ADIT): Deferred tax expense should not be calculated using the Straight-Line Tax ratio. This would amount to flow-through tax accounting on a portion of the timing difference related to property. Deferred tax expense should be calculated using the book depreciation portion of the timing difference on property in which tax depreciation was previously passed back using the Reverse South Georgia method.

Schlessman RT/ST/SST, pp. 15-16.

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?

MAWC Position:

Return on Equity – In this proceeding, consistent with standalone ratemaking principles, it is appropriate to establish the both the cost of equity and equity ratio for MAWC, not its parent, American Water Works Company, Inc. (AWK). It is important to establish a return on equity and capital structure that provide MAWC with the ability to attract capital on reasonable terms, on a standalone basis, and within the AWK system. All AWK utility operating subsidiaries compete for proactive investment capital. Unless MAWC is provided a reasonable opportunity to earn a reasonable return on equity with an appropriate capital structure, it will be at a disadvantage in attracting proactive capital from its parent company resources.

The appropriate return on equity (ROE) to be used to determine a reasonable rate of return for MAWC is in the range of 10.25% to 11.25%, as supported by the testimony of Company witness Ann Bulkley. Ms. Bulkley developed her recommendation based on her review of a proxy group of utility companies that face operating and financial risks substantially comparable to those faced by MAWC. To her proxy group, Ms. Bulkley applied the constant growth form of the

Discounted Cash Flow model (DCF), the Capital Asset Pricing model (CAPM), and the Empirical Capital Asset Pricing model (ECAPM). The results of the analyses that Ms. Bulkley developed directly support her estimated cost of equity range. Taking into consideration, the current and prospective capital market conditions, MAWC's capital expenditure requirements, and MAWC's regulatory, business and financial risks as compared to the proxy group, Ms. Bulkley concludes that within the range established by the cost of equity estimation models, an appropriate ROE of 10.75% is reasonable and appropriate in this case.

Bulkley DT, All; Bulkley RT/ST/SST, All.

<u>*Capital Structure*</u> – The appropriate capital structure to use is the actual, stand-alone capital structure of MAWC consisting of 50.39% equity and 49.61% long-term debt. This capital structure should be used to calculate the weighted average cost of capital for MAWC because it will allow MAWC to maintain access to low-cost financing through all financing sources and is in line with the capital structures and ROEs for utility companies with similar risk profiles. MAWC's actual, stand-alone capital structure reflects the capital that will be <u>used</u> to fund the Company's rate base during the period of time rates set in this proceeding will be in effect. MAWC's equity ratio of 50.39% is within the range of actual equity ratios of the utility operating companies held by the proxy group, as well as the capital structures that have recently been authorized for natural gas and water utilities. The Company's equity ratio is below the average of the proxy group. Using any other approach than the actual, stand-alone capital structure reflecting how MAWC is financed would make MAWC an outlier in comparison to the proxy group. A capital structure consisting of 50.39% common equity and 49.61% long-term debt is reasonable considering the impact of current and projected market conditions on the cash flows of utilities like the Company, as well as increased capital expenditures, and inflation.

MAWC is a stand-alone business enterprise in all material respects including, but not limited to, its independent state operations, capital investments, management, and corporate governance. As a subsidiary of the larger American Water enterprise, MAWC customers benefit from American Water's size and scale to realize cost savings, the most significant of which includes lower debt costs from the financial services agreement with MAWC's affiliate, American Water Capital Corp.

MAWC's actual, stand-alone capital structure represents the actual debt and equity capital used to finance MAWC's business and is aligned with its peers. The relevant consideration in determining the appropriate capital structure supporting the overall return on capital is the risk associated with the use of funds, not the source of those funds. MAWC's actual, stand-alone capital structure appropriately reflects its distinct risk profile as a stand-alone business enterprise with independent state operations, capital investments, management, and corporate governance. MAWC's actual, stand-alone capital structure allows MAWC to maintain access to low-cost financing through all financing sources.

Use of AWK's consolidated capital structure, as proposed by Staff and OPC, does not reflect the difference in the risk profile of MAWC and AWK, is not reflective of the way in which MAWC is actually operated, is contrary to the dictates of the United States Supreme Court in the *Hope* and *Bluefield* cases, as well as this Commission's prior decision in the Spire rate case. Such an approach is inconsistent with the Commission's charge in balancing the interests of all stakeholders in the ratemaking process, and is incompatible with sound regulatory policy. Any lower imputed equity ratio than MAWC's actual equity ratio would require a commensurate, upward adjustment in the authorized ROE and would negatively affect MAWC's ability to attract proactive capital, reducing investment to Missouri and weakening the credit metrics for the Company to the detriment of the Company and its customers.

Bulkley DT, pp. 9-11, 69-77; RT/ST/SST, pp. 8-9, 26-44, 141-149.
Furia DT, pp. 4-5, 12-14; RT/ST/SST, pp. 2-41.
LaGrand, SDT, Sched. BWL-1.

Debt Cost Rate – MAWC's cost of long-term debt for the test year end (including true-up period ended December 31, 2024), as adjusted through May 2025 is 4.56%. This is the actual cost of debt that MAWC will incur and will be obligated to pay on its long-term debt during the period rates set in this proceeding will be in effect, including through participation in the Financial Services Agreement with respect to American Water Capital Corp. issuances, as well as other externally sourced debt.

Furia RT/ST/SST, pp. 23-27.
LaGrand, SDT, Sched. BWL-1.

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

MAWC Position: The appropriate amount of property tax expense to include is an annual level of property tax of $44,886,871 based on property taxes paid through the end of 2024 along with a discrete adjustment for property taxes related to select investments through May 31, 2025.

LaGrand, SDT, Sched. BWL-1.
Grisham DT, p. 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?

MAWC Position: Credit Card fees are a part of MAWC's Customer Accounting expense. However, calculation of credit card fees should recognize there is a two-month lag in the timing of when the customer credit charges occur and when the Company receives and pays what is billed by Paymentus, the additional fee of $1.95 per transaction associated with customers using American Express cards, and that Paymentus's monthly invoice to the Company backs out any returned transactions.

Grisham DT, p. 9; RT/ST/SST, p. 13.

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

MAWC Position: The Miscellaneous Service Charges for water and wastewater service should be as proposed in the Direct Testimony of Jody Carlson.

Carlson DT, pp. 50-55.

> **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?

MAWC Position: Liberty/Empire should be placed on Rate J and Chariton County PWSD #2 be placed on Rate B. MAWC believes the special contract between MAWC and Triumph Foods, LLC continues to be in the public interest and the tariff sheet associated with this contact should remain in place.

LaGrand (MAWC witness).

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

MAWC Position: All water system acquisitions that have been closed since the last rate case should be combined with MAWC's consolidated water tariff group and all wastewater system acquisitions should be combined with MAWC's small sewer tariff group, outside of the City of Arnold. Further, if the Commission should utilize discrete adjustments, acquisitions and divestitures expected to close between January 1, 2025, and the operation of law date should also be included in the calculation of proposed rates.

LaGrand DT, pp. 42-44; RT/ST/SST, pp. 20-21.

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

MAWC Position: MAWC agrees with the Staff's recommendation as to injuries and damages.

Cifuentes RT/ST/SST, p. 3.

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

MAWC Position: MAWC incurs costs related to several types of insurance including Auto Liability, General Liability, Excess Liability, Workers' Compensation, and Property. The Company also has other policy coverages such as Directors and Officers Liability, Employment Practices and Cyber Crime policies. These insurance costs are commonly referred to as "IOTG". IOTG expense should be based on the guidance from the Company's insurance brokers on what the insurance market changes are and how they would affect the Company's renewals; using a specific capitalization percentage of 47.41%, which is based on three (3) year average of costs directly related to Workers' Compensation and other insurance related components. The MAWC costs utilized in the calculation are known and measurable and verifiable for independent review and IOTG expenses were based solely on those pertaining to MAWC and the associated fees.

Cifuentes DT, pp. 22-23; RT/ST/SST, pp. 27-28.

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

MAWC Position: The operating expense for telecommunications expense includes those expenses associated with the office phone services, wireless services, and other data lines used by the Company. Staff and MAWC are in agreement on the use of the most recent test year to calculate telecommunications expense as of the true-up. Including MAWC's discrete adjustment, the amount included in the cost of service related to telecommunications expense should be $1,719,080.

Grisham DT, pp. 11-12; RT/ST/SST, p. 17.
LaGrand SDT, Sched. BWL-1.

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?

MAWC Position: The contracted services expense includes a myriad of costs performed by contracted third parties. Examples include, among other things, costs related to accounting fees, audit fees, legal fees, landscaping, excavating, janitorial, and costs associated with Missouri One Call. The appropriate amount of contract services expense to include in MAWC's cost of service is $7,111,770.

Cifuentes DT, p. 20.
LaGrand SDT, Sched. BWL-1.

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

MAWC Position: The corporate costs are costs that benefit the entire state and are not specifically attributable to a specific operation or location. For example, labor costs for MAWC employees who support the entire state, or general liability insurance. The choice of allocation factors has no impact on the overall revenue requirement; however, it does impact the revenues for individual districts. These costs should be allocated to the four operating districts - St. Louis County Water, All Other Water, Arnold Sewer, and All Other WW – based on Customers, Revenue, Net Plant, the Hybrid Massachusetts formula, and the number of Service Orders.

LaGrand RT/ST/SST, pp. 48-50.

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

MAWC Position: The services provided by the Service Company include customer service, water quality testing, environmental compliance, human resources, communications, information technology, finance, accounting, regulatory, legal, engineering, supply chain, risk management, among others. Included as part of the broad range of services summarized above, the Service Company provides a variety of financial and accounting services for MAWC that include payroll, human resource data management, utility plant accounting, cash management, general accounting and reporting, accounts payable, and tax accounting. The Service Company provides Missouri-American with access to highly trained professionals who possess expertise in various specialized areas, whose background, experience and training are focused on water utility operations and who work exclusively for American Water's subsidiaries. The Company and by extension its customers benefit from these services and the expertise of the Service Company's personnel at a reasonable cost. That cost should be included in MAWC's cost of service.

Cifuentes DT., pp. 17-20; RT/ST/SST., pp. 18-24.
Baryenbruch Dir., All.

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?

MAWC Position: Yes. There are multiple benefits to the Company's proposed paperless billing program, such cost savings, faster delivery of bill, a more secure method of bill delivery, reduction of environmental impact, and increase in customer satisfaction. The cost savings alone is significant. Each paperless bill yields savings of approximately $0.97. If postage increases take place, the savings of sending a paperless bill will be over $1.00 per bill. A conversion to paperless billing is an easy way to help control costs and keep rates affordable for customers. The program proposed by MAWC should be approved by the Commission without modification.

Tarcza RT/ST/SST, pp. 7-16.
Carlson DT, pp. 45-49; RT/ST/SST, pp. 29-30.

> **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?

MAWC Position: No disallowance of return on MAWC's meter investment is appropriate. MyWater is not billing software. Thus, the usage display on MyWater is different from the system the Company uses to bill its customers and, thus, MyWater has no impact on customer billing. MAWC's meters are performing the function for which they are designed, and a disallowance is not appropriate.

In addition to other information, a customer with an AMI meter can review their daily usage history over the last 30 days. The Company has identified scenarios where usage would be adjusted in MyWater and is in the process of updating MyWater to address these scenarios.

Tarcza RT/ST/SST, pp. 17-20.

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

MAWC Position: MAWC is willing to work with Staff to revise it's the service area maps and legal descriptions found in its tariffs to make them more legible for users. However, because of the work required to complete this project, MAWC believes that it should be provided one year from the effective date of a final order in this case to make any necessary tariff filings associated with this project.

Carlson (MAWC witness).

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?

MAWC Position:

a. Depreciation Rates: The depreciation rates used for the calculation of the depreciation expense, in Schedule CAS-9 Summary of Operating and Maintenance Expenses, Depreciation, Amortization and General Taxes, are the depreciation rates authorized in Case No. WR-2022-0303. Based on discussion by Staff witness Bowman, the Company updated the depreciation rates used for 1 water account (Account 315) and 1 sewer account (Account 361) to the appropriate rate, as reflected in the Company's true up filing.

The Company agrees to provide a new depreciation study as part of the Company's next rate case, as recommended by both Staff witness Branson and OPC witness Robinett.

Grisham DT, pp. 13; RT/ST/SST, pp. 3-4.

b. Depreciation Expense: Schedule CAS-9, Summary of Operating and Maintenance Expenses, Depreciation, Amortization and General Taxes, presents that calculation of Depreciation Expense based on the pro forma UPIS balance on Schedule CAS-4 by NARUC account and by water tariff groups and sewer tariff groups. The appropriate amount of depreciation expense to include, with discrete adjustments, is $88,596,413.

Grisham DT, pp. 13; RT/ST/SST, p. 10.
LaGrand, SDT, Sched. BWL-1.

c. Depreciation Reserve: The Company agrees with Staff's $1,555 adjustment to Accumulated Reserve related to depreciation expense in a land account, as reflected in the Company's true up filing.

The Company is not experiencing negative reserve for meter accounts due to early retirements, as OPC witness Robinett contends. MAWC's meters are generally being retired at the end of their normal useful life of 10 years. This 10-year useful life, however, is not perfectly aligned with the 30-year depreciation rate and this causes the negative reserve balances. The Company suggests a review and consideration of the alignment issue in the depreciation study for the next rate case. The meters are directly involved in providing service to customers and appropriate for cost recovery from those customers. Therefore transferring costs to shareholders through depreciation reserve adjustment in inappropriate.

LaGrand DT, pp. 41.
Grisham RT/ST/SST, pp. 3, 10-11.

d. Capitalized Depreciation: The Company capitalized a portion of the depreciation expense related to transportation equipment, using the same capitalization rate as used for labor expenses. Staff's capitalization depreciation workpaper, inconsistently calculated the capitalization rate used across the various tariff groups for their adjustment, overstating Staff's amount at June 30, 2024, and using an aggregate MAWC's capitalization rate of 46%, Staff's adjustment is a decrease of approximately $151,000.

Grisham DT, pp. 13; RT/ST/SST, pp. 9-10.

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

MAWC Position: The appropriate balance of plant in service, with discrete adjustments, to include in MAWC's rate base is $4,802,566,824.

Grisham DT, pp. 3-4; RT/ST/SST, p. 3.
Linam DT, All.
LaGrand SDT, Sched. BWL-1.

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

MAWC Position: The Company incurs operating expenses for customer accounting that include costs related to lock box fees for payment collection and bank fees. The appropriate amount of customer accounting expenses, with discrete adjustments, to include in MAWC's cost of service is $1,865,433.

Grisham DT, p. 9.
LaGrand SDT, Sched. BWL-1.

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

MAWC Position: The operating expense related to employee expense includes those expenses associated with employee travel and relocation expense. A three average of such expenses should be used. The appropriate amount of employee expenses to include in MAWC's cost of service, with discrete adjustments, is $643,505, minus an adjustment of $4,213, as explained in the Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony of Jennifer Grisham.

Grisham DT, p. 12; RT/ST/SST, pp. 14-15.
LaGrand SDT, Sched. BWL-1.

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?

MAWC Position: MAWC's total company present rate revenues, including discrete adjustments, are $453,612,948.

The appropriate number of residential water meters to use for calculating the minimum charge to include in revenues is 285,963 for St. Louis County customers and 112,933 for non-St. Louis

County customers and acquisition customers. The appropriate amount of Other Operating, Miscellaneous, and Unbilled revenues, pro forma as of the end of the test year, are $3,416,500, $317,224, and $0, respectively.

The appropriate number of residential wastewater connections to use for calculating the minimum charge to include in revenues is 8,407 for Arnold customers and 16,527 for non-Arnold customers and acquisition customers. The appropriate amount of Other Operating, Miscellaneous, and Unbilled revenues, pro forma as of the end of the test year, are $27,441, $0, and $0, respectively.

McClellan DT, pp. 54-58
LaGrand DT, Sched. BWL-3, CAS-8, CAS-11 and CAS 12; DT, Sched. BWL-1.

> **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?

MAWC Position: The language found in Rule 3E identified by Mr. Spratt should be replaced with "The Company shall not be liable for damages resulting to Customer or to third persons unless its due to the negligence on the part of the Company." No change should be made to the disconnection fee found on Sheet RT 9.1, nor to incorporate Rule 22P on Sheet R47 into Rule 3 on Sheet R11. MAWC agrees that the obsolete language identified by Mr. Spratt incorporated and plans to include these tariff revisions when compliance tariffs are filed in this case.

Carlson RT/ST/SST, pp. 27-28.
LaGrand RT/ST/SST, pp. 50-52.

> **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?

MAWC Position: MAWC is willing to meet with Staff, OPC and others in regard to these issues as well as to discuss whether "quarterly" is the appropriate frequency.

LaGrand RT/ST/SST, pp. 47-48.

> **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?

MAWC Position:

<u>RSM -</u>

The Commission should approve the Company's proposed Revenue Stability Mechanism ("RSM"). The RSM would compare actual revenues (exclusive of WSIRA and new acquisitions and net of marginal changes in associated production costs) to those approved in this case. It is authorized by Section 386.266.4, RSMo, which provides:". . . to ensure revenues billed by such water corporation for regulated services equal the revenue requirement for regulated services as established in the water corporation's most recent general rate proceeding or complaint proceeding . . . <u>due to any revenue variation resulting from increases or decreases in residential, commercial, public authority, and sale for resale usage</u>." (emphasis added). Although most of MAWC's costs are fixed, its rate structure is based, largely, on volumetric charges. Consequently, any factors that affect sales, either positively or negatively, will necessarily drive a wedge between Authorized Revenues in this case and the actual level experienced on a going forward basis.

The Company's proposed RSM is designed to align the Company's revenues with the level the Commission uses to set rates in this case going forward. The mechanism effectively addresses the unpredictable changes in volume of water sold due to factors beyond the control of the Company. The RSM avoids windfalls or shortfalls by ensuring that the Company collects the amount of Authorized Revenues and that customers pay no more or less than the revenue level found appropriate to produce just and reasonable rates. If revenue is higher than expected, the net difference will be credited to customers. Conversely, if revenue is lower than expected, the RSM will make up the net difference to the Company.

The RSM will have no effect on conservation efforts. A customer who takes specific actions to reduce their water consumption will still enjoy the benefits of a lower bill even with the implementation of the RSM because the impact of potential surcharges, if any, from the RSM will be dwarfed by savings that a customer will see through conservation actions taken on their own.

Rea DT, pp. 38-52; RT/ST/SST, pp. 27-49.
LaGrand RT/ST/SST, pp. 36-40.

RSM Structure –

The Commission should approve Authorized Revenues and production costs in this proceeding. Once approved, the RSM proposed by MAWC would then compare the Authorized Revenues to actual billed revenues for the residential, commercial, other public authorities (OPA) customer classes and Sale for Resale, and defer/accrue the difference, less the applicable change in production costs, on a monthly basis. Industrial customers would be excluded from the RSM. Production costs would include power, chemicals, purchased water, and water waste disposal (a percentage of usage for Industrial customers would be removed).

The annual amount of metered revenues and the annual amount of expenses for all production costs would be prorated to monthly amounts. The Company proposes that the proration be set using the Company's last two years of system delivery to obtain a reasonable monthly amount of Authorized Revenues and production costs. These monthly amounts would be reset in the next base rate case proceeding.

Production costs should be taken into account because they vary with sales volumes. Delivering more water costs more and delivering less water costs less. Netting production costs will ensure that both the Company and its customers are made whole; paying only those production costs associated with the actual amount of water delivered.

Rea DT, pp. 45-47; RT/ST/SST, pp. 34-40.

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?

MAWC Position: No. MAWC considers drought risk and impacts as a component of its long term planning program. Where droughts pose a risk to service in its systems, MAWC develops and implements plans and solutions to improve resilience. MAWC currently has plans in place for approximately 93% of its customers, to include the customers in the area of the state where known issues exist. Without some indication that MAWC's efforts are deficient, there does not appear to be a need to create new meetings and administrative requirements for additional oversight of the actions MAWC currently performs.

Carlson RT/ST/SST, pp. 22-25.
Lueders DT, pp. 21-22.

(Nothing further on this page)

WHEREFORE, MAWC respectfully requests that the Commission consider this *Statement of Position*.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail, on February 21, 2025, counsel for all parties.

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