

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

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

**INITIAL BRIEF**

**COMES NOW** the Staff of the Missouri Public Service Commission ("Staff"), by and through counsel, and files its Initial Brief:

**Introduction**

On April 26, 2024, Missouri-American Water Company ("MAWC") filed its *Notice of Intended Case Filing*. Following several rounds of pre-filed testimony, an evidentiary hearing was held on March 5-7 and March 10, 2024. This brief addresses the remaining issues to be decided by the Commission after the filing of a *Partial Stipulation and Agreement* on February 28, 2025, and a *Revenue Requirement Stipulation and Agreement* filed on March 17, 2025. No party has made an objection to either of these agreements, thus, they can now be treated as unanimous.

The issues that remain are split into two sections: Rate Design and MAWC's proposed Universal Affordability Tariff ("UAT"). These two issues are comprised of several subparts and require answers to several questions listed in the *List of Issues*, *Order of Opening Statements*, *Order of Cross-Examination* and *Order of Witnesses* that was filed on February 14, 2025. For ease of understanding, these questions and Staff's positions appear below as part of this introduction; the numbering matches what can be found in the *List of Issues*. Following this overview, are more detailed explanations of Staff's argument and positions on rate design and the UAT.

### 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?

*The same allocation factors used in Case No. WR-2022-0303 should be used in this case.*

- 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?

*The allocation of revenue requirement among rate classes should be the same as in Case No. WR-2022-0303. The Commission should not use the CCOS study filed by MAWC, because it was based on a future test year, which includes estimated future expenses and revenues, and is therefore invalid. Special contracts should increase by the same percentage as other rates.*

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

*Staff recommends no change from the allocation used in Case No. WR-2022-0303.*

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

*Staff recommends no change from the allocation used in Case No. WR-2022-0303.*

- iii. How should purchased power expenses be allocated?

*Staff recommends no change from the allocation used in Case No. WR-2022-0303.*

- iv. Rate J distribution multiplier

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

*Staff recommends no change from the allocation used in Case No. WR-2022-0303.*

- 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 recommends no change from the allocation used in Case No. WR-2022-0303.*

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

*Staff recommends no change from the allocation used in Case No. WR-2022-0303.*

- 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 rate design should be used: an applicable percent increase to current rates needed for MAWC to recover its costs should be applied. See 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. Single tariff pricing moves rates further away from the principle of cost causation. There is no benefit to customers in creating a single tariff rate.*

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

*If approved, the UAT should be approved as contemplated in the Amended Non-Unanimous Second Partial Stipulation and Agreement filed on March 6, 2025.*

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

*Yes, the UAT should be approved as a pilot program.*

ii. If so, what accounting treatment should be ordered for the cost?

*The cost should be deferred to a regulatory asset for recovery in the Company's next rate case.*

iii. If so, should the Commission order stakeholders to meet quarterly to address implementation of the tariff?

*Yes.*

## **Rate Design**

All customers of regulated utilities in Missouri are entitled to safe and adequate service, and they must be charged rates that are just and reasonable. Section 393.130.1

RSMo states:

Every gas corporation, every electrical corporation, every water corporation, and every sewer corporation shall furnish and provide such service instrumentalities and facilities as shall be safe and adequate and in all respects **just and reasonable**. All charges made or demanded by any such gas corporation, electrical corporation, water corporation or sewer corporation for gas, electricity, water, sewer or any service rendered or to be rendered shall be **just and reasonable** and not more than allowed by law or by order or decision of the commission. Every **unjust or unreasonable** charge made or demanded for gas, electricity, water, sewer or any such service, or in connection therewith, or in excess of that allowed by law or by order or decision of the commission is prohibited. [emphasis added]

The repetition of these words in the statute underscore their importance. Staff's goal in recommending just and reasonable rates to the Commission is "to design rates that will

be utilized to collect the appropriate level of revenue from each service territory and from each customer class based upon the revenue requirement.”<sup>1</sup>

There is no single correct way to design rates that meet the just and reasonable standard. A helpful tool in doing this is to conduct a Class Cost of Service (“CCOS”) study. A CCOS study “calculates a utility’s total investment and operating costs incurred to provide service to various customer groups, or service classes...”<sup>2</sup> Rate design follows from a completed CCOS study. According to Staff witness Melanie Marek, “the class cost of service study is just used as a guide in rate design...rate design takes the overall revenue requirement and allocates it through each of [MAWC’s] rate classes.”<sup>3</sup> The results of a CCOS study, while providing important information and insight, cannot account for every factor that affects rates. A CCOS study is a tool used in rate design, and, in this case, Staff found the CCOS study from MAWC’s most recently completed rate case to be a sufficient guide for Staff to recommend rates in this pending rate case.

While Staff often completes its own CCOS study as part of a large rate case, that is not always the case. After reviewing both Staff’s and MAWC’s CCOS from MAWC’s most recently completed rate case, WR-2022-0303, Staff determined that there was little difference in cost allocations between that case and the current rate case. To calculate rates in this case, “Staff applied the applicable percent increase to current rates needed for MAWC to recover its costs...”<sup>4</sup> This results in just and reasonable rates that account

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<sup>1</sup> Ex. 217, *Direct/Rebuttal Testimony of Melanie Marek*, p. 1, l. 21-22.

<sup>2</sup> Ex. 18, *Direct Testimony of Max W. McClellan*, p. 4, l. 9-10.

<sup>3</sup> Transcript Vol. 10, p. 171, l. 16-21.

<sup>4</sup> Ex. 217, *Direct/Rebuttal Testimony of Melanie Marek*, p. 3, l. 17-18.

for both the increases in MAWC's costs and lack of change in cost allocations since the completion of Case No. WR-2022-0303.

In alignment with Staff's goal of recommending just and reasonable rates, Staff is opposed to MAWC's proposal to consolidate Rate Class A across St. Louis County and non-St. Louis County customers. Single tariff pricing, moves rates further away from the principle of cost causation. According to Staff witness Melanie Marek, "Water and sewer service, and their respective costs, are inherently local and subject to cost variations among locations...the current level of consolidation already dilutes cost causation, and further consolidation of rates is not recommended."<sup>5</sup> Customers should be billed for the costs that they cause a utility to incur, and those costs may vary by location.

The allocation factors and resulting rates ordered by the Commission in Case No. WR-2022-0303 are presumed to be just and reasonable, as it is the duty of the Commission to set such rates. Recognizing that the largest change, applicable to rate design, since MAWC's last rate case, is an increase in the Company's costs, leads to the conclusion that an equal percent increase to current rates across all classes to meet those rising costs is clearly just and reasonable.

### **Universal Affordability Tariff (UAT)**

As part of the *Amended Non-Unanimous Second Partial Stipulation and Agreement* filed on March 6, 2025 ("*Stipulation*"), that now encompasses Staff's position, Staff, MAWC, OPC, Consumer Council of Missouri, and AARP agreed to allow MAWC to

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<sup>5</sup> Ex. 217, *Direct/Rebuttal Testimony of Melanie Marek*, p. 5, l. 6-12.

establish its UAT Program according to the sample tariff sheets included as *Attachment A* to the *Non-Unanimous Second Partial Stipulation*.

The Commission should approve MAWC's request to account for all customer discounts, administrative fees, and other program costs, with these expenses deferred as a regulatory asset to be recovered in the Company's next rate case. The UAT is a pilot program, and as such, it will be reassessed during MAWC's next rate case, when the company seeks cost recovery for pilot program expenses.

MAWC agreed to file a quarterly status report as a non-case related filing in the Commission's Electronic Filing & Information System (EFIS). The quarterly status reports will provide an update on the levels of participation and the Company's deferred costs.

The UAT Program shall be available to all residential metered customers who have an income level at or below 150% based on the Federal Poverty Level (FPL) or 60% below the State Median Income (SMI), whichever threshold is utilized by the Missouri Department of Social Services, and are enrolled by program Agencies designated by the Company. Eligible customers will receive a discount for twelve (12) months after which they must reapply for continued assistance.

If the Commission chooses not to approve UAT as contemplated by the *Stipulation* filed on March 6, 2025, the Commission should not approve the UAT.<sup>6</sup>

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<sup>6</sup> Ex. 205, *Direct/Rebuttal Testimony of Scott J. Glasgow*, p. 5-6.

**WHEREFORE**, Staff submits this Initial Brief for the Commission's consideration and information.

Respectfully Submitted,

**/s/ Casi Aslin**

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**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand delivered, transmitted by facsimile or electronically mailed to all counsel of record this 4<sup>th</sup> day of April, 2025.

**/s/ Casi Aslin**