

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

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

MAWC’S INITIAL BRIEF

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COMES NOW Missouri-American Water Company (MAWC, Missouri-American, or Company), and, as its Initial Brief concerning the remaining issues for the Commission's consideration, MAWC states as follows to the Missouri Public Service Commission (Commission) in support of its position on this issue:

INTRODUCTION

The following stipulations have been filed by the parties and may be treated as unanimous in accordance with Commission Rule 20 CSR 4240-2.115: the *Partial Stipulation and Agreement* (filed February 28, 2025); and the *Revenue Requirement Stipulation and Agreement* (filed March 17, 2025).

The remaining rate case issues for the Commission's consideration and decision are the sub-issues identified as Issues 3.a CCOS, and Revenue Allocation, 3.b. Rate Design (other than Single Tariff Pricing), and 3.e. Universal Affordability Tariff of the *List of Issues, Order of Opening Statements, Order of Cross-Examination and Order of Witnesses* filed on February 14, 2025. MAWC will address these remaining issues in the following pages.

ISSUES

3.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?**
- iii. How should source of supply costs be allocated to the Public Fire protection class?**
- iv. How should Water treatment costs be allocated to the Public Fire Protection class?**
- v. How should purchased power expenses be allocated?**
- vi. 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?
vii. For both districts, should system load factors be reduced to reflect peak demand that the water systems were designed to serve?

The Company's allocated cost of service study, with three adjustments described in the Company's Rebuttal/Surrebuttal/Sur-surrebuttal Testimony (hereafter "Rebuttal Testimony" or "Rebuttal"), is the appropriate tool to use for the purpose of allocating the revenue requirement among the rate classes.

The three adjustments follow: First, the Rate J multiplier for St. Louis County should be 0.4392. Exh. 19, McClellan Rebuttal, p. 26; Second, it would be appropriate to allocate source of supply costs to the Public Fire Protection class. *Id.*, p. 22; and Third, the Non-St. Louis County Rate J multiplier should be calculated to reflect the movement of one customer to that classification, as well as one inadvertently omitted customer. *Id.*, p. 27. Other than these changes, the Company's cost of service study should be used.

The costs of treatment should not be allocated to Public Fire Protection. Water treatment costs are incurred to provide potable drinking water, which is not needed for Public Fire Protection. Exh. 19, McClellan Rebuttal, p. 22. Purchased power costs should be allocated entirely based upon usage. While MAWC does incur some power costs on a demand basis, MAWC addresses peak water demand through storage. As such, there is a limited, if any, correlation between increases in pumping requirements to meet peak demand and increases in purchased power costs. *Id.*, p. 23-24.

System load factors should be based on the three-year average of maximum day to average day, because the purpose of the system load factor is to estimate the relationship on a going forward basis. Exh. 19, McClellan Rebuttal, p. 26. For Non-St. Louis County, the Rate J distribution

multiplier should be 0.0873 after including two additional customers to the original calculations. *Id.*, p. 27.

It is not necessary for the Company to study the length of distribution mains serving Rate J customers both inside and outside of St. Louis County as calculating distribution multipliers based on Rate J customers' utilization of the Company's distribution infrastructure is a reasonable approach to calculating said distribution multipliers. Exh. 19, McClellan Rebuttal, p. 28.

Finally, for St. Louis County, the Rate J distribution multiplier should be the 0.4392 calculated by the Company, rather than the multiplier using 17-year old data proposed by Witness York. Exh. 19, McClellan Rebuttal, p. 28.

3.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?

The wastewater rate design issues have been settled by the parties as a part of the *Partial Stipulation and Agreement* that was filed on February 28, 2025. There is no objection to that Stipulation.

As to water, the parties have reached agreement on customer charges for Rate A, Rate B, and Private Fire in the *Revenue Requirement Stipulation and Agreement* ("Revenue Requirement Stipulation") filed on March 17, 2025 (which also has no objection). The customer charges for Rate J should continue to be statewide as they are in the current tariff with increases proportionate to those of the Rate A and Rate B customer charge increases. The remainder of the increase should be reflected in the commodity rates where MAWC will continue to charge statewide volumetric charges only for Rate B.

The parties have also settled in the *Partial Stipulation and Agreement* on the implementation of a two-tier declining block structure for Rate J, on a percentage of the resulting

Rate A commodity rate that should be used for the first block of Rate J, and that Triumph Foods' rate will be determined as per its existing contract. Beyond those matters, the remaining commodity rates are in dispute.

The Company's existing contract rates should continue to be determined as per their contracts.

Further, while MAWC's request for consolidation of Rate A and of Rate J has been withdrawn in settlement, MAWC believes that the St. Louis County and Non-St. Louis County commodity rates for Rates A and J should move closer together.

The Commission will not be able to select rates that it finds in evidence to resolve this issue. MAWC proposed rates with its initial filing in this case. However, as a result of the Commission's prior decision on the future test year and the ultimate agreement of the parties as to the cost of service found in the *Revenue Requirement Stipulation and Agreement*, those initially filed rates are no longer appropriate. Additionally, billing determinants were not determined until the agreement of the parties as specified in the *Revenue Requirement Stipulation and Agreement*. Thus, the rates in this case will be calculated based on the Commission's decisions as to the appropriate allocation to various rate classes.

The Commission need not make these decisions blindly. It has in some past cases directed the filing of scenarios by the parties, based on parameters identified by the Commission, in order to inform its deliberations. An example of such an order is found in Case No. WR-2017-0259, issued January 10, 2017 (EFIS Item 178)¹. If the Commission decides to utilize this process, MAWC would be happy to work with the parties to provide the Commission with such information for its review.

¹ Another example may be found in Case No. GR-2006-0422, issued March 8, 2007 (EFIS Item 262).

3.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?**

The Commission has before it a non-unanimous stipulation and agreement that would implement a Universal Affordability Tariff (“UAT”) as a pilot program (“UAT Stipulation”). Midwest Energy Consumers Group (“MECG”) has objected, raising two issues: first, that MECG believes the program to be discriminatory, and second, that the costs of the program and level of discounts to be deferred for future recovery are unknown and unlimited. Neither objection is a valid basis to reject the program.

First, the UAT does not unreasonably discriminate. Section 393.130 RSMo, is the relevant statute, and it prohibits “directly or indirectly . . . charg[ing] . . . a greater or less compensation . . . for doing a like and contemporaneous service.” Further, it prohibits the making or granting of “any undue or unreasonable preference or advantage.” This language does not require that each and every customer pay the same rate for service. MAWC has long had different rates for its rate groups A, B and J. Likewise, MAWC has long charged different rates inside St. Louis County compared to outside St. Louis County. All rate differentials discriminate, and no Missouri statute declares all rate differentials to be unlawful. What this statute prohibits is charging different rates for doing a “like” service and granting “undue or unreasonable” preferences. Cost of service and accompanying rate design are the customary tools utilized to design rates that do not discriminate unreasonably.

In this case, the evidence was uncontroverted that customers who use more discretionary water (washing cars, watering lawns, filling pools) cause higher costs to serve per gallon. Exh. 22, Rea Direct, pp. 30-31. “The biggest driver of cost of service allocations to customer class for the purposes of setting rates is consumption patterns This means that steadier flatter consumption patterns are allocated less cost per gallon of water served than consumption patterns that are peakier or more seasonal.” *Id.* The evidence also shows that discretionary use of water is directly correlated to income levels. “[D]ata across the American Water footprint and specifically in the Missouri-American service territory shows 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.” Exh. 22, Rea Direct, p. 32. In short, “lower income customers are actually subsidizing higher income customers under the Company’s current rate design.” Exh. 22, Rea Direct, p. 37.

Addressing this income-based cost of service difference in current rates is the foundation of the UAT. As held by the Missouri Court of Appeals, the statute charges the Commission with fixing the rates and charges and “[t]h Commission’s allocation of costs of service is a question of reasonableness, not lawfulness.” *Missouri Pub. Serv. Comm’n v. Office of Pub. Couns.*, 526 S.W.2d 253, 263 (Mo. App. 2017). The UAT is a reasonable, cost-based solution that does not unreasonably discriminate among customers receiving a like service.

Under the UAT Stipulation, this program is designed as a pilot program, and “[t]he Missouri Supreme Court has long held the Commission has the authority to grant interim test or experimental rates as a matter of necessary implication from practical necessity.” *Missouri American Water Co.*, File No. WR-2015-0301, 2016 Mo PSC LEXIS 313, *78 (5/26/2016). It

will be evaluated and reported quarterly and, as explained by Witness Marke on cross-examination, it will provide “[a] really good valid data point . . . moving forward.” Tr., Vol. 10, p. 238 (March 6, 2025).

The second MECG objection is that the potential regulatory asset from this program is unknown and unlimited. The administrative costs of this program are reasonably known and have been consistently estimated at approximately \$30,000 per month. In terms of participation, no party reasonably believes that this program will ever reach the 100% participation level hypothesized by MECG. After thirty years, the participation level in Pennsylvania has only reached 35-40%. *Id.*, p. 219. As Dr. Marke testified, its participation is “not going to approach the sort of levels that I think are going to cause problems in a future proceeding.” *Id.*, p. 234. Further, the associated costs can be evaluated in the next rate case, giving the parties an opportunity to review the reasonableness of the costs incurred in connection with the UAT pilot program.

Accordingly, MECG’s objections do not provide a valid basis to reject the program and the UAT should be approved as supported by the Company, Commission Staff, the Office of the Public Counsel, Consumers Council and AARP in the UAT Stipulation.

(Continued on following page)

WHEREFORE, MAWC respectfully requests the Commission consider this Initial Brief and issue such orders as it should find to be reasonable and just.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been sent by electronic mail to all counsel of record this 4th day of April 2025.

//S// Dean L. Coper