

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

In the Matter of Missouri-American Water)
Company's Request for Authority to Implement) **File Nos. WR-2024-0320, et al**
General Rate Increase for Water and Sewer)
Service Provided in Missouri Service Areas.)

INITIAL BRIEF OF THE CONSUMERS COUNCIL OF MISSOURI

Most of the issues in this Missouri-American Water Company ("MAWC" or "Company") rate case have already been resolved among the parties by a stipulation and agreement on revenue requirement that was filed on March 17th, 2025. Several class issues were not resolved by that unanimous settlement, including customer class allocations and the proposed Universal Assistance Tariff (UAT). Those remaining issues were given an evidentiary hearing last month before the Commission. The Consumers Council of Missouri ("Consumers Council") continues to disagree with the large industrial and commercial customer group proposals in this case to shift more revenue requirement onto the residential class.

Earlier, on March 6, 2025, most of the parties to this case reached another stipulation and agreement (Amended Second Partial Stipulation and Agreement) which proposes to settle some of the remaining issues. The Midwest Energy Consumers Group ("MECG") filed a timely objection to the UAT portion of that settlement, pursuant to 20 CSR 4240-2.115, therefore the Commission must consider the Amended Second Partial Stipulation and Agreement as a joint position statement of the signatory parties. Consumers Council continues to support that UAT, as agreed upon in the March 6 Amended Second Partial Stipulation and Agreement.

Class Cost of Service (CCOS)

MAWC performed a class cost of service study (CCOSS) in this case. MIEC and MCEG witness Jessica York made several criticisms and recommendations to modify the water company's CCOSS.¹ Consumers Council witness Caroline Palmer also had criticisms and recommendations regarding the water company's CCOSS, from a different perspective.²

Witness Palmer testifies about a problem with the way that the utility had allocated distribution mains. Because large customers under Rate J and Rate B (the rates for Manufacturers, Large Quantity users of Water, and Sale of Water for Resale) may take service directly from the transmission system and therefore, do not all use the distribution system. MAWC attempts to allocate larger customer classes only the distribution costs that are proportional their use of the system. To do so, MAWC estimates the percentage of Rate J and Rate B's water usage that is served at the distribution level, and only allocates distribution costs to those classes based on the distribution-level usage, rather than based on total usage.³

The percentage of Rate J and B's total usage served at the distribution level is called the distribution multiplier. The Company used a distribution multiplier of 0.11 for Rate J customers both in the St. Louis County service area and outside of St. Louis County. It used a multiplier of 0.21 for Rate B customers in St. Louis County and 0.56 for Rate B customers outside of St. Louis County.⁴ According to witness Palmer, the Company used an erroneous distribution multiplier, 0.11, for

¹ Ex. 500.

² Ex. 451, pp. 4-7.

³ Ex. 451, pp. 4-5.

⁴ Ex. 451, p. 5.

Rate J customers in St. Louis County, which is lower than the multiplier indicated in its workpaper.⁵ Consumers Council recommends that MAWC develop distribution multipliers based on the usage characteristics of a larger and more verifiably representative number of Rate J and B customers—ideally all 21 customers in each class, respectively.⁶

The Commission Staff, which looked all the evidence on CCROSS and rate design, recommends that the revenue requirement be allocated based on an equal percent increase across all rates and districts. Consumers Council agrees with the Staff's recommended approach. Despite the method of class allocations that the Commission determines is the appropriate method in this matter, it is not only important that the decision is anchored on some reasonable assumptions about cost based differences for serving those classes generally. There are other equally important ratemaking principles, in addition to a purely cost-based analysis, that should always be taken into account by the Commission.⁷ Those other traditional ratemaking principles include gradualism⁸, efficiency of use⁹, public acceptance, and the avoidance of rate shock.

⁵ Ex. 451, p. 5.

⁶ Ex. 451, p. 7.

⁷ James Bonbright, *Principles of Public Utility Rates*, Columbia University Press, 1961, page 291.

⁸ Ex. 451, p. 9.

⁹ Ex. 451, pp. 9-10.

Universal Affordability Tariff

The Consumers Council's Position continues to support MAWC's proposed UAT, and as agreed upon by most parties in the non-unanimous March 6, 2025 Amended Second Partial Stipulation and Agreement.

Consumers Council will fully reply to any legal arguments advanced by MCEG regarding "rate discrimination" later in its reply brief. But as a preliminary matter, it is important to understand that the Commission has broad discretion when it comes to utility rate design. Missouri law does not tell the Commission how to design its customer classes, and the only discrimination that it prohibits between those classes is "undue discrimination".¹⁰

As explained in the testimony of MAWC witness Rea¹¹, and in the testimony of Consumers Council witness Roger Colton¹², the assistance that would be available under the UAT program for eligible participants would indeed be cost based, due to the significant water usage differences apparent in the data regarding the relationship of that usage to household income. In fact, also shows that discretionary use of water is directly correlated to income levels.¹³ No party has disputed the evidence in this case, offered by the water utility itself, that customers who use more water, cause higher costs to serve per gallon.¹⁴ According to witness Rea, "lower income customers are actually subsidizing higher income customers under the Company's current rate design."¹⁵

¹⁰ RSMo. 393.130

¹¹ Ex. 22, Rea Direct, pp. 30-38.

¹² Ex. 450, pp. 18-68.

¹³ Ex. 22, p. 32.

¹⁴ Ex. 22, pp. 30.

¹⁵ Ex., p. 37.

Witness Colton provides additional evidence as to overall benefits of the proposed UAT to the water company's cost structure, which can offset certain costs of such a program. Under similar water assistance programs, *collectability* of rate revenue for the utility improved.¹⁶ This increased collectability of revenue from low income customers can work to lower the uncollectible expense, which is a part of the revenue requirement paid by all customers. Another benefit seen in other jurisdictions is more *timely* payments by program participants, which can provide other system-wide benefits, by reducing the lag days between the date of billing and the date of payment, and since working capital is a capital expenditure, this can improve the ability of the utility to earn a fair return.¹⁷

It would be reasonable to treat the proposed UAT program as an experimental pilot program, to be implemented over the years before MAWC's next general rate case. This would be the first such program for water customers in Missouri. Consumers Council will commit to helping make the UAT program successful for all ratepayers and for the utility.

Based upon attempt to launch similar programs, Consumers Council does not expect a large revenue requirement impact in the initial years of such a program. If it would provide the Commission some comfort, a reasonable dollar cap on such the UAT program could ensure that it would not have a bigger impact than expected as it is being launched over the next couple of years. Due to the uncertainty about participation, Consumers Council recommends that the costs of

¹⁶ Ex. 450, p. 53-55.

¹⁷ Ex. 450, pp. 60-64.

the program be deferred for appropriate treatment by the Commission in the next MAWC general rate case.

Respectfully Submitted,

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April 4, 2025

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to all parties listed on the official service list on this 4th day of April 2025.

/s/ John B. Coffman
