

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

**INITIAL POST-HEARING BRIEF OF
THE MISSOURI INDUSTRIAL ENERGY CONSUMERS**

Comes now the Missouri Industrial Energy Consumers (“MIEC”), and for its Initial Post-Hearing Brief states as follows:

I. Overview and Policy

The MIEC and other parties have entered into several stipulations and agreements regarding numerous issues in this case, including the appropriate revenue requirement for Missouri-American Water Company (“MAWC”).

The remaining issues to be addressed involve MAWC’s class cost of service and allocation to the customer classes.¹ The outcome of these issues largely depends on whether the Commission finds that class cost of service should be the driving factor in allocating MAWC’s rate increase.

Historically, the Commission’s starting point for deciding the allocation of a rate increase is the principle that the customer class that causes a direct cost should pay that cost. Class cost of service is the foundation of just and reasonable rates for the following reasons:

¹ The MIEC has not taken a position on the Universal Affordability Tariff issue, which has not been resolved among the parties.

1. Equity. Cost-based rates ensure that each customer pays what it costs for the utility to provide service to that customer. If rates are not based on cost of service, some customers will unfairly pay costs attributable to providing services for other customers.
2. Conservation. Cost-based rates incentivize the efficient use of water and provide customers with a balanced price signal for making decisions on water consumption.

Although cost of service is the starting point for setting just and reasonable rates, the Commission has broad discretion to consider other factors, such as gradualism, economic growth, job retention, rate stability, revenue stability, simplicity and ease of administration.

Additionally, cost-based rates benefit Missouri's economy by enabling customers to predict and manage water costs. This makes Missouri more attractive to the employers that make up Missouri's economic base and helps Missouri to attract and retain production.

II. MIEC Evidence and Recommendations

- 1. The Commission should determine class cost of service in this case based on the class cost of service study submitted by MIEC/MECG.**

Only two witnesses provided class cost of service studies (CCOS) in this case: MAWC Witness McClellan and MIEC / MECG witness York. Both rely on the widely

accepted Base-Extra capacity method (including specific variations within that method) to functionalize, classify and allocate costs among MAWC's customer classes.

At the outset of her Direct Testimony, Ms. York recommends that the Commission reject MAWC's proposed revenue spread for St. Louis County because it is based on continued movement toward Consolidated Tariff Pricing ("CTP"). CTP violates cost-causation principles, could erode system efficiency, and may reduce the incentive for MAWC to perform due diligence before acquiring additional water systems. Additionally, CTP ignores the economies of scale associated with serving customers in a relatively large, condensed district as compared to serving small numbers of customers in geographically dispersed locations.²

The Base Extra Capacity Method was used for the COSS studies submitted by MAWC, MIEC and MECG.³ However, Ms. York's study is more reasonable than MAWC's because it more correctly tracks cost of service in several material respects. Ms. York's corrections and recommendations to MAWC's COSS are set forth in her Direct / Rebuttal Testimony and are summarized as follows:

1. The Public Fire Protection class should receive an allocation of source of supply and water treatment costs.
2. Purchased power expense should be allocated both on a base and extra-base capacity demand, and not only on base usage.

²Exh. 400, Direct / Rebuttal Testimony of Jessica York p. 27, l. 3 – p. 33, l. 2.

³Exh. 400, p. 7, l. 12 – p. 8, l. 5.

3. The system load factor used to assign costs between the base and extra-capacity functions should be modified to be consistent with the customer class load characteristics indicated by the customer class peaking factors pursuant to the methodology described in the AWAA Manual M1.
4. Both the Private and Public Fire service classes should receive an allocation of Source of Supply, Power and Pumping and Water Treatment costs in the water CCOS using the allocation labeled by MAWC as Factor 3. Because MAWC in fact uses treated water to provide fire protection service⁴, it is just and reasonable to allocate a portion of water treatment to the Public Fire Class just as MAWC has done for the Private Fire Class.⁵
5. The Commission should reject MAWC's proposal for a St. Louis County Rate J distribution multiplier of 11%. This proposal is unsupported, as MAWC did not explain how it arrived at this multiplier. Additionally, MAWC's use of water consumption to develop the distribution multiplier significantly overstates the portion of distribution system investment and expenses required to provide service to these customers. MAWC has not

⁴ Exh. 400, York Direct / Rebuttal p. 8, ll. 17 – 19.

MAWC's use of treated water to provide fire protection service was established by MAWC's data responses in this case (specifically, MAWC's Response to Data Request MIEC 1-15, which is attached to Exh. 400 as Schedule JAY-1).

⁵ Id. at p. 8, l. 15 – p. 9, l. 19

provided proper consideration to the length of distribution mains serving St. Louis County Rate J customers.

6. If the Commission were to authorize any multiplier at all, Ms. York recommends that the multiplier be set at 1.17%. Ms. York's recommended multiplier of 1.17% is based on MAWC's finding in the 2008 study that only 225,000 feet of distribution mains serve St. Louis County Rate J Customers. If the Commission decides not to adopt Ms. York's recommendation for a multiplier of 1.17%, she recommends that the Commission (1) adopt a Rate J distribution multiplier for St. Louis County of no more than 10 percent for the time being, consistent with MAWC's previous recommendations based on its own 2008 rate case distribution mains study and (2) direct MAWC to conduct an updated study of the length of distribution main serving St. Louis County Rate J customers.⁶
7. MAWC should also conduct a study of the length of distribution mains serving Rate J customers both inside and outside of St. Louis County. It has previously been determined that even though Rate J customers may have a significant pattern of water consumption served by small distribution mains, the actual length of distribution mains used to connect these customers to the transmission system represents a small fraction of the total distribution system. As a result, this should be recognized in

⁶ Id. at p. 13, l. 18 – p. 15, l. 2

developing an appropriate multiplier. MAWC witness Paul Herbert performed this type of study for St. Louis County Rate J customers in Case No. WR-2008-0311. Mr. Herbert found that although certain Rate J customers are connected to smaller mains, the length of those mains are only a small fraction of the total distribution main system. Without explanation, Mr. Herbert concluded that a 10 percent distribution multiplier should be established. Ms. York observes that the 10 percent multiplier is arbitrary and overstates the cost of the distribution system designed to serve St. Louis County Rate J Customers.⁷ Ms. York recommends that to better inform the CCOSS in future cases, the Commission should require MAWC to conduct a study of the length of distribution mains serving its Rate J customers as it did in the 2008 case.⁸

8. For St. Louis County, the Commission should adopt the Rate J distribution multiplier recommended by Ms. York.⁹

⁷ Exh. 400, York Direct/Rebuttal at p. 15, l. 3 – p.16, l. 2

⁸ Id. at p. 16, l. 13 – p. 17, l. 14

⁹ Id. at p. 16, l. 13 – p. 17. l. 5.

III. Commission Staff Recommendation

- 1. The Commission Staff did not perform a class cost of service study in this case, and its recommendation for an equal percentage increase to all customer classes has no evidentiary basis and should be rejected.**

Notably, the Commission Staff decided not to produce a CCOS study for this case.¹⁰ Yet, without evidentiary basis, the Commission Staff recommends an equal percentage allocation of the rate increase to all MAWC customer classes.

The Commission Staff asserts that its position in the present case is based on Staff's CCOS study in MAWC's 2022 rate case. Staff claims that the 2022 study is adequate to allocate costs to the MAWC's customer classes in the present case. Staff Witness Marek asserts in her Direct/Rebuttal Testimony that her recommendations were made on the basis that "it appears with MAWC's submitted CCOS study and the Staff prepared CCOS from the last rate case, there was not much difference in the cost allocations."¹¹ However, in response to cross-examination by Mr. Optiz during the evidentiary hearing, Staff CCOS witness Ms. Marek stated that she did not perform an analysis of MAWC's 2022 rate case, that she did not develop the underlying workpapers supporting Staff's testimony in that case, that she did include the results of the 2022 study as an attachment to any rounds of testimony in the present case, and that she first became aware of testimony of questions regarding the accuracy of Staff's 2022 study during the

¹⁰ Exh. 501, Cross Rebuttal / Surrebuttal Testimony of Jessica York, p. 5, ll. 5-6, *citing* Direct/Rebuttal Testimony of Melanie Marek at p. 3, ll. 8 – 9

¹¹ Id.

opening statements of the evidentiary hearing in this case. She also affirmed Staff's position that the same allocation factors that were used in the 2022 case should be used in the present case despite the errors pointed out in Ms. York's testimony.¹²

Contrary to Staff Witness Marek's testimony that "there was not much difference in the cost allocations", MIEC witness York testified in this case (both in her prefiled written testimony and her live testimony during the evidentiary hearing) that Staff's CCOS models from MAWC's 2022 rate case are flawed, erroneous and should not be viewed as evidence regarding the appropriate rates in the present case.¹³ As set forth in MIEC Witness York's Cross Rebuttal / Surrebuttal testimony, the Staff's CCOS model contained at least one significant error and used several unsupported data points that were used in the development of allocation factors.¹⁴

MIEC witness York provided both rebuttal and surrebuttal testimony regarding the flaws in the CCOS models used by Staff in MAWC's 2022 rate case. Ms. York addressed the fact that Staff did not actually apply the distribution multiplier that it supported had supported in Direct Testimony to its CCOS models for the Rate J and Sale for Resale classes. Ms. York showed that the Staff CCOS models included maximum day and maximum hour demand ratios by customer class from a prior rate case, with no evidence or discussion to prove that these factors were still representative of the load characteristics of each customer class. Lastly, Ms. York pointed out that there were

¹²Tr. p. 153, l. 23 – p. 155, l. 13.

¹³ Exh. 401, York Cross-Rebuttal / Surrebuttal, p. 5, l. 15 – p. 6, l. 7.

¹⁴ Id. at p. 6, l. 8 –p. 7, l. 23

unsupported data points used in Staff's CCOS, including source of average day rate of flow used to develop Factor 3, the horsepower of pumps used to develop Factor 3, and the horsepower of pumps used to develop Factors 6 and 7.

In MAWC's 2022 rate case, Staff presented updated CCOS models with its Rebuttal Testimony. Ms. York addressed Staff's updates to its 2022 rate case models as follows:

I found that Staff had applied its recommended distribution multipliers to the Industrial and Sale for Resale classes. Staff had updated the customer class maximum day and maximum hour demand ratios used in the CCOSS models. In addition, it had modified several other data points used to develop allocation factors in the CCOSS. Examples of some of the changes made by Staff include the following:

- Annual usage by customer class used to develop Factor 1
- Maximum day demand ratios, including a significant reduction in the ratio for the residential class
- Maximum demand ratios by class
- Weightings of the base, maximum day extra capacity, and fire protection components used to develop Factor 3
- Weightings of the base, maximum hour extra capacity, and fire protection components used to develop Factor 4
- Weightings of the base, maximum hour capacity and fire protection components used to develop Factor 5.

Staff offered testimony in the MAWC's 2022 rate case discussing changes that were reflected in the updated water CCOSS models that were filed with its Rebuttal testimony. Staff provided limited explanation of the modifications that it made to its water CCOSS models that were provided with Staff witness Roth's Rebuttal Testimony

in that case.¹⁵ In response, Ms. York provided the following discussion of this issue in her Surrebuttal Testimony in that case:

“Staff’s rebuttal testimony only discussed one of the many changes it made to the COSS models, and that is the distribution multiplier issue. While Staff’s rebuttal testimony notes that it has corrected the distribution multiplier issue, it is completely silent with respect to all other changes made to its CCOS models. Therefore, Staff has not provided any support whatsoever for any of the changes it made to its COSS models between its direct testimony filing and its rebuttal testimony filing. As a result, Staff’s COSS models should be rejected.”¹⁶

Staff’s CCOS study models were not shown to produce an accurate measure of the cost of providing service to each customer class. Therefore, it is unreasonable to conclude that if the Commission Staff had updated its water CCOS models in this case that those models would be consistent with the MAWC’s CCOS study.¹⁷

In the present case, the Staff’s CCOS position is based on its erroneous CCOS in the prior 2022 rate case, and numerous errors in that study remain uncorrected or unsupported. Accordingly, the Commission should not rely on the Staff’s testimony to determine the CCOS in this case.

¹⁵ Id. at p. 8, ll. 1 – 15

¹⁶ Id. at p. 8, ll. 1 – 15

¹⁷ York Cross-Rebuttal / Surrebuttal at p. 8, l. 1 –p. 9, l. 13, *citing* Rebuttal and Surrebuttal Testimony of Staff Witness Keri Roth in Case No. WR-2022-0303.

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 emailed to all parties on the Commission's service list in this case.

/s/ Diana M. Plescia