

**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 )	<b><u>File No. WR-2024-0320</u></b>
Water and Sewer Service Provided in )	
Missouri Service Areas. )	

**REPLY BRIEF  
OF  
PUBLIC WATER SUPPLY DISTRICT NOS. 1 AND 2 OF ANDREW COUNTY**

COME NOW Public Water Supply District Nos. 1 and 2 of Andrew County, ("Water Districts"), pursuant to 20 CSR 4240-2.080 and the Commission's *Order Granting Motion for Extension of Briefing Deadlines* entered in this matter on April 2, 2025, files their Reply Brief in the above-referenced matter and respectfully states as follows:

**I. INTRODUCTION**

The purpose of this Reply Brief will be to address a few points raised by the Missouri-American Water Company ("MAWC"), Commission Staff("Staff"), Office of the Public Counsel ("Public Counsel"), Consumers Council of Missouri ("CCM"), Missouri Energy Consumers Group ("MECG"), and Missouri Industrial Energy Consumers ("MIEC"). The Water Districts adequately anticipated and addressed most of their arguments in their Initial Brief, but a few additional comments are warranted at this time.

In this case, the Water Districts have not taken a position on revenue requirement issues but instead have focused upon the Class Cost of Service ("CCOS") and Rate Design issues. The Water Districts would respectfully request that the Commission adopt the positions on these issues as stated herein.

**II. THE WATER DISTRICTS AGREE WITH STAFF THAT THE STAFF'S CLASS COST OF SERVICE STUDY RESULTS FROM THE 2022 MAWC RATE CASE SHOULD BE USED AS A GUIDE FOR SETTING RATES IN THIS CASE.**

In this proceeding, the Commission Staff stated that “A CCOS (Class Cost of Service Study) is a tool used in rate design, and, in this case, Staff found that 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.” (Staff Brief, p. 5). The Water Districts agree with Staff that the Staff’s CCOS results from the most recently completed rate case should be used in this case as a guideline for determining the appropriate rates for each class of customers. (i.e. allocation of class revenues) . The results of Staff’s CCOS are contained in Ex. 700.

As Staff witness Melanie Marek explained during cross-examination, the Staff CCOS results from the most recently completed rate case demonstrated that for District 2, the Sales For Resale Class should have received a 21.6% rate reduction, even when the overall increase according to the Staff EMS Run was 17.8%, if the Staff’s CCOS results were used to allocate the overall increase. (Tr. 163-164) For District 1, the Sales For Resale Class should have received a 17.7% rate reduction, when the overall increase for District 1 was 19.3% according to the Staff EMS Run. (Tr. 165) These results from the Staff’s CCOS study showed that, unlike any other class, the Sales For Resale Class was over-recovering its cost of service, and therefore, it was appropriate to substantially reduce Rate B to close the gap between the revenues produced by Rate B and the Sales For Resale Class’ cost of service. (See Ex. 700)

In the 2022 MAWC rate case, the Commission adopted a settlement among the parties that took a very modest step toward moving the classes closer to their respective cost of service.<sup>1</sup> In that case, the Sales for Resale Class volumetric rates were slightly reduced to begin to close the gap between the rate levels and the Sales For Resale Class Cost of Service.<sup>2</sup> However, additional steps should be taken in this proceeding. Since the Staff's CCOS shows that Rate B was the only class that was over-recovering its cost of service in File No. WR-2024-0303 (Tr. 163-165), the Commission should take another step in this proceeding and make a substantial downward adjustment in the current rates charged in Rate B to the Sales for Resale Class.

While it is the position of the Water Districts that the Commission should make a substantial downward adjustment in the current rates charged in Rate B to the Sales for Resale Class, the Water Districts also recognize that rate design principles require the use of gradualism in moving toward cost of service. In their Initial Brief, the Water Districts suggested, as a compromise proposal, that the Commission take another modest step in closing the gap between Rate B and its cost of service in this case. In this case, MAWC, Commission Staff, Public Counsel, MECG, and Consumers Council of Missouri/AARPP filed a Revenue Requirement Stipulation and Agreement which recommends that the Commission increase MAWC's revenue requirement to \$580,000,000 (water - \$555,985,000 and sewer \$24,015,000). It is the Water Districts' understanding that this

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<sup>1</sup> See *Stipulation and Agreement as to Rate Design and Class Cost of Service*, File No. WR-2022-0303 (file 3/10/2023).

<sup>2</sup> Attachment A of *Stipulation and Agreement as to Rate Design and Class Cost of Service*, File No. WR-2022-0303 (file 3/10/2023).

stipulation, if adopted, would increase the water revenues on a total company basis by approximately \$123,601,988, or approximately 28.6%.<sup>3</sup>

As a compromise position, the Water Districts recommend that the Commission allocate the rate increase in a manner so that there would be little, if any, increase for Rate B above the existing rates after the WSIRA is reset to zero. All other classes of service would receive an equal percentage increase in rates after this modest step in reducing the gap between Rate B revenues and its class cost of service. In other words, for Rate B, the rates would be maintained at the approximate level of the existing rates when the WSIRA was reset to zero. This proposal would be consistent with the results of the Staff's CCOS in the last MAWC rate case. From the Water Districts' perspective, this proposal would be fair and reasonable under the circumstances of this case.

### **III. IT IS NOT APPROPRIATE FOR RATE B TO BE ALLOCATED AN EQUAL PERCENTAGE INCREASE IN THIS CASE.**

While the Staff has recommended that the Commission use the results of its previous CCOS study as a guide in allocating the rate increase, Staff has not applied the results in a reasonable manner. The Staff apparently did not take into account the significant gap between the Rate B revenues and its class cost of service. Instead, Staff suggested that the rates be applied in an across-the-board, equal percentage basis. (Staff Brief, p. 5; Ex. 217, Marek Direct/Rebuttal, p. 6). The Public Counsel and CCM have also endorsed this approach. (OPC Brief, pp. 7-8; CCM Brief, p. 3) Public Counsel argued that, given the magnitude of the rate increase in this case, an equal percentage approach would be fair to all classes. (OPC Brief, p. 8) This argument rings hollow when it is

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<sup>33</sup> In their Initial Brief, the Water Districts incorrectly indicated that the stipulated increase in water revenues was \$124,554,008 or approximately 28.9%. It is now the Water Districts' understanding that this information was in error, based upon the stipulated revenues in the Non-Unanimous Stipulation on Revenue Requirement Issues.

remembered that in a past case the Water Districts received a much larger percentage increase with little concern from other parties for the impact of a 268% increase in the Water Districts' rates.<sup>4</sup>

As explained above, the Water Districts disagree with the equal percentage approach.<sup>5</sup> Given the substantial need for adjustment of the Rate B rates, as discussed above, the Rate B class should not be allocated an equal percentage increase since this approach would merely maintain the status quo. Instead, the Commission should adopt the Water Districts' compromise proposal discussed above. For other classes, the Water Districts believe that an equal percentage increase of the remaining revenue requirement would be reasonable and appropriate under the circumstances of this case.

#### **IV. THE COMMISSION SHOULD NOT RELY UPON CCOS RESULTS BASED UPON FUTURE TEST YEAR DATA.**

Contrary to the position of MAWC, MEGC and MIEC, the Commission should not use the results of MAWC's, MEGC's or MIEC's CCOS that are based upon future test year data. As Staff witness Melanie Marek has testified, the CCOS filed by MAWC and MEGC/MIEC should not be utilized in this case since these cost studies include estimated future expenses and revenues and are therefore inappropriate. (Ex. 217, Marek Direct, Rebuttal, p. 3; Staff Position Statement, p. 4; Tr. 166). The Commission has already determined that the use of a future test year in this case is not appropriate, and instead the

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<sup>4</sup> See *Dissenting Opinion of Vice-Chair M. Dianner*, pp. 3-4, File No. WR-2000-281 (filed August 31, 2000); Re Missouri-American Water Company Rate Cases: Report And Order, File No. WR-2000-281 (issued August 31, 2000).

<sup>5</sup> MEGC has also expressed opposition to this equal percentage approach when it stated: "Instead, the Staff takes the unsupported, unreasonable, and arbitrary position that an equal percent allocation of the revenue increase is appropriate because "[i]t is Staff's position that the CCOS study prepared by Staff in MAWC's prior rate case adequately allocates the cost of providing water service to each customer classification in each of the districts." (MEGC Brief, p. 2) MIEC also rejected the equal percentage approach. (MIEC Brief, p. 8)

“Commission concludes that the historic test year with adjustment should be adopted.”<sup>6</sup>  
For this reason, it would not be appropriate to rely upon MAWC’s or MIEC/MECG’s CCOS that are based on future test year data.

The Water Districts also believe it is not appropriate to re-open the record to have MAWC or other parties re-run their CCOS to incorporate historic data using “scenarios” suggested after the record has closed, as suggested by MAWC. (MAWC Brief, p. 5) The Commission should utilize the existing record to make its decision in this case.

**2. Issue 3b. 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?**

As explained in their Initial Brief, the Water Districts take the position that the current rate design for Rate B should be maintained. No party has challenged the continued use of a Single Tariff rate for Rate B customers. The Water Districts take no position at this time on the rate design issues related to other customer classes of service.

**WHEREFORE**, Public Water Supply District No. 1 and 2 of Andrew County request that this Commission adopt the positions stated herein.

Respectfully submitted,

**/s/ James M. Fischer**

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<sup>6</sup> *Order Regarding Test Year*, File No. WR-2024-0320 (issued July 31, 2024).

### **CERTIFICATE OF SERVICE**

I do hereby certify that a true and correct copy of the foregoing document has been hand-delivered, e-mailed or mailed, postage prepaid, this 18th day of April, 2025, to counsel of record for each party in accordance with the service list maintained in this proceeding by the Secretary of the Commission on EFIS.

**/s/ James M. Fischer**

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James M. Fischer