

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

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

**MAWC’S REPLY BRIEF**

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**COMES NOW** Missouri-American Water Company (MAWC, Missouri-American, or Company), and, as its Reply Brief concerning the remaining issues for the Commission’s consideration, MAWC states as follows to the Missouri Public Service Commission (Commission):

## **INTRODUCTION**

On April 4, 2025, initial briefs were filed by the Staff of the Commission (Staff), the Office of the Public Counsel (OPC), the Missouri Industrial Energy Consumers (MIEC)<sup>1</sup>; the Midwest Energy Consumers Group (MECG); Consumers Council of Missouri; and the Public Water Supply Districts No. 1 and No. 2 of Andrew County.

MAWC will reply in this brief to those initial briefs. As has been confirmed by all parties submitting initial briefs, the issues that remain in dispute fall into two categories: (1) cost of service and revenue allocation; and (2) the Universal Affordability Tariff (“UAT”) pilot program. On the first category, there is no agreement among the parties. The second category has been resolved by a non-unanimous settlement that has been opposed only by MECG. Notably, MECG did not oppose the UAT as originally proposed by MAWC in its testimony.

## **ISSUES**

### **3.a. CCOS, AND REVENUE ALLOCATION**

### **3.b. RATE DESIGN (OTHER THAN SINGLE TARIFF PRICING)**

With respect to cost of service, there are two issues in dispute among the parties: (1) whether to use the cost of service studies prepared by Witnesses McClellan and York (which were based upon a future test year) or whether to use the Commission Staff cost of service study from the most recent general rate case (prepared in 2022); and (2) if the former, how should the issues in dispute between Witnesses McClellan and York be resolved.

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<sup>1</sup> MIEC filed a Motion to File Initial Post Hearing Brief Out of Time on April 7, 2025.

As to the first issue, Witness McClellan prepared a cost of service study on behalf of MAWC, and Witness York submitted modified versions of that study on behalf of MECG and MIEC. It is true that no party submitted a cost of service study based upon the revenue requirement that any party has proposed in this case. The MAWC, MECG, and MIEC cost of service studies were all based upon a revenue requirement using the Company's originally proposed future test year. But even had those studies used the actual test year in this case, there is no cost of service study that now allocates the stipulated revenue requirement to which the parties have now unanimously agreed. In other words, the stipulated costs of providing service have not been allocated among the revenue classes by any witness in this case. The Commission does not have a cost of service study that is perfectly aligned with the stipulated costs of service. The Commission should use the McClellan and York studies rather than the Staff study from the last rate case if for no other reason than that they are closer in time to the current test year and thus are far better aligned with the current costs of service than the Staff's older study.

As to the disputes between McClellan and York, they are, for the most part, immaterial. Other than Rate J for St. Louis County and Rate B in both rate groups, the results are directionally the same.<sup>2</sup> More importantly, no party is proposing to set rates based upon cost of service in this case. Rather, those parties advocating something other than an equal percentage rate increase applied to each rate group have advocated the use of cost of service as a guide, with the ultimate revenue allocation to be informed by mitigation principles.

While MIEC nowhere mentions it in its Initial Brief, the most significant driver of the directional difference between York and McClellan for St. Louis County Rate J is York's decision

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<sup>2</sup> Compare Exh. 500, MECG York Testimony, Table JAY-1 with MIEC York Testimony, Table JAY-2 (non-St. Louis County) and Exh. 400, MIEC York Testimony, Table JAY-2 (St. Louis County).

to classify the vast majority of St. Louis County's costs associated with mains with diameters of 10-inches to 16-inches as distribution related. For at least the last 17 years, mains with a diameter of 10 inches and larger have been classified as part of the transmission function. As Mr. McClellan testified, "Reclassifying the majority of mains sized 10-16-inches as distribution mains and assigning the associated plant and depreciation expense to the Distribution function would significantly shift the costs associated with those mains from Rate J to the smaller customers' classes which are served off of distribution mains." Exh. 19, McClellan Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony, p. 24. Mr. McClellan's testimony was not impeached in this regard, and MIEC did not include this very significant issue in its statement of the issues in this case. Given the other differences between the witnesses are immaterial and that York's unorthodox rejection of using mains 10 inches or larger as the threshold for the distribution function is simply unsupported for COSS and ratemaking purposes. Mr. McClellan's cost of service study should be the one that is used to guide revenue allocation for all rate classes.

As noted, no party contends that rates should be set based upon cost of service, and so there is no reason to chase every single issue between McClellan and York in dispute. Staff recommends an equal percentage rate increase applied to each rate group, but such a result ignores that there are significant interclass subsidies in the current rate design. MAWC contends that mitigation is best accomplished using the indices proposed by MAWC. These increases are consistent with moving most classes closer to cost of service gradually and affordably while doing so in a far more thoughtful method than that proposed by Witness York. Unsurprisingly, the Company's revenue allocations, based on cost of service studies that were not created to favor any particular customer classes, do not result in revenue allocations that appear to favor any particular customer class.

Compare Exh. 500, MECG York, Table JAY-1 with MECG York, Table JAY-2 and Exh. 400, MIEC York, Table JAY-2.

### **3.e. UNIVERSAL AFFORDABILITY TARIFF (UAT)**

The only party contesting the nonunanimous settlement as the UAT Pilot Program is MECG – a party who has presented no evidence in opposition to the UAT at any time. MECG’s proposed finding on the UAT is simply contrary to the evidence. MECG seeks a finding that the tariff discriminates between customers “without a difference in service.” MECG Brief, p. 22. This is contrary to the undisputed facts of record. The evidence in this case is that it costs more per gallon to serve customers with more discretionary water usage than customers who have more stable water usage and that discretionary usage of water is highly correlated with income levels. Exh. 22, Rea Direct, pp. 30-32. As explained by Witness Rea, “lower income customers are actually subsidizing higher income customers under the Company’s current rate design.” Exh. 22, Rea Direct, p. 37. The UAT pilot program begins to address this subsidy inherent in current rates.

MECG may argue that not all low-income customers are consistent with this correlation and that some high-income customers may actually not have discretionary use of water. However, all rate design and rate classifications are based upon assumptions. For instance, it is common to have different rates for fire protection than for residential service, and this is based upon the fact that the costs of service are generally different for these two types of customers. But not every fire hydrant is used to the same extent; in fact, some may not be used at all. These sorts of deviations from the standard assumptions are not reasons to reject the classifications. The evidence of the different costs to serve based upon income levels is undisputed, and the possibility that there could be outliers is not a reason to claim the rate is discriminatory.

MECG then engages in hyperbole by ignoring the testimony of MAWC Witness Rea and OPC Witness Marke when it contends the estimated cost of the UAT pilot program over a 2-year period is \$58,185,236. MECG Brief, p. 25.<sup>3</sup> That number would assume 100% immediate participation in this program. As both Mr. Rea and Dr. Marke testified based upon actual experience in other states, even if this program were indefinite, it would never reach such high participation levels. Mr. Rea testified that with a very mature program (in place for more than 30 years), participation could only optimistically be expected to reach levels of approximately 30%. Tr., Vol. 10, pp. 219-20. Certainly, in the first 2-3 years during which the pilot will be in place and before it can be reviewed in the next general rate case, participation should be expected to be far lower. At that point, the data on the success of the program can be evaluated and a decision made whether to continue or modify. Dr. Marke explained that there has never been a program like this in Missouri. With the low participation levels that can be expected in the initial years and the quarterly meetings that will take place, the data gathered from the pilot program can be studied without risking a significant future rate impact. Tr., Vol. 10, p. 238.

MECG's opposition to the non-unanimous settlement is not based on evidence and should be rejected so that the pilot program can be implemented and the valuable data sought by Dr. Marke can begin to be collected and evaluated.

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<sup>3</sup> In response to a request from the Commission Chair, MAWC has submitted data showing the potential magnitude of the regulatory asset under a wide range of participation scenarios. Tr., Vol. 10, pp. 206-07; *MAWC's Filing in Response to Commission Requests* (4/2/2025).

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

Respectfully submitted,

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**ATTORNEYS FOR MISSOURI-AMERICAN WATER COMPANY**

**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 18<sup>th</sup> day of April 2025.

//S// Dean L. Coper