

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	)	

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

Comes now the Missouri Industrial Energy Consumers ("MIEC") and for its Post-Hearing Reply Brief states as follows:

**I. Reply to Commission Staff, Office of Public Counsel and Consumers' Council**

The Commission Staff ("Staff"), Office of Public Counsel ("OPC") and Consumer Council of Missouri ("CCM") argue that all customer classes should receive an equal percentage rate increase in this case.

The Commission Staff decided not to provide a class cost of service (CCOS) study in this case, baselessly asserting that "not much has changed" since MAWC's 2022 rate case<sup>1</sup>. To the contrary, the Commission Staff's 2022 CCOS study contained serious and fundamental flaws which were pointed out by case parties but not corrected<sup>2</sup>. MAWC's 2022 rate case was ultimately settled by a "black box" nonunanimous stipulation and agreement. The rates resulting from that case were not based on the Commission Staff's CCOS study (nor that of any other party in that case). There is no legal basis for a COSS

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<sup>1</sup> Ex. 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

<sup>2</sup> Id. at p. 8, l. 1-15.

study introduced in a prior rate case to serve as just and reasonable basis for a new rate increase. This is especially true if that prior rate case was resolved by a black box stipulation and agreement.

The OPC advocates for a system average increase to avoid rate shock to customers. The MIEC shares OPC's concern regarding rate shock. However, rate shock will only increase if MAWC's rates are unmoored from cost of service. Staff Witness Marek acknowledges that an equal percentage increase dilutes cost causation, which the Staff wishes to avoid.<sup>3</sup> Departure from CCOS will create and exacerbate class inequities in future rate cases, send improper price signals, discourage water conservation and deter investment in Missouri's economy. Ms. York's testimony recognizes the importance of rate shock, and recommends a 1.25 cap on the increase for each class in order to support gradualism.<sup>4</sup>

## **II. Reply to Public Water Supply District**

Like the Commission Staff, the Public Water Supply District relies on the Commission Staff's 2022 COSS study, which was flawed and only partially corrected. As discussed in Section I above, that case was resolved by a nonunanimous stipulation and agreement and cannot lawfully serve as evidence regarding just and reasonable rates in this case.

The Public Water Supply District separately makes the baseless assertion that the Commission should disregard the CCOS studies in this case because those studies are

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<sup>3</sup> Ex. 217, Direct Rebuttal Testimony of Melanie Marek, p. 5, ll. 11 – 12.

<sup>4</sup> Ex. 400, Direct / Rebuttal Testimony of Jessica York, p. 6, ll. 3 – 5.

based on the MAWC's decision to request that a future test year rather than a historical test year. This argument is specious, because the same types of costs (for example, source of supply, water treatment, pumping, distribution, storage and other costs) that exist in a future test year also exist in a historical test year. The only difference is that the future test year costs are based on projections instead of actual historical costs with known and measurable adjustments. The underlying allocation methods for each type of cost would be the same regardless of whether a historical test year or a future test year are selected. The use of a future test year is no basis to disregard the COSS evidence provided by MAWC and MIEC / MIECG in this case.<sup>5</sup>

### **III. Reply to St. Joseph and Riverside**

St. Joseph and Riverside advocate an equal percentage increase for similar reasons as the Staff, OPC, CCM and Public Water Supply District. Additionally, they assert that large business and industrial customers will not experience rate shock because they can pass the cost of rate increases to their customers in the price of their products. To the contrary (unlike MAWC and other monopoly utilities) large commercial and industrial companies compete nationally and globally. These large employers cannot simply pass the cost of water rate increases in prices to their customers.

The MIEC recognizes that rate shock is an important concern, and as previously noted MIEC witness York recommends a 1.25 cap on the increase to each class in order to provide gradualism.

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<sup>5</sup> MAWC Initial Brief, p. 3.

#### **IV. Reply to MAWC**

MAWC ignores several important differences between its CCOS study and that of MIEC. Both use versions of the widely accepted Base Extra Capacity method and provide “directionally similar” results. However, Ms. York makes several material corrections to Mr. McClellan’s CCOS study which MAWC has failed to address.<sup>6</sup>

MAWC particularly downplays Ms. York’s correction to Mr. McClellan’s allocation of transmission and distribution mains. MAWC considers mains with diameters of 10 inches and larger to be transmission mains. However, while all customers use transmission mains and therefore are all allocated a share of those costs, some large customers take service only from transmission mains. MAWC recognizes this by applying a “distribution multiplier” to the usage of each class in the allocation factors. However, instead of developing a distribution multiplier based on CCOS data, MAWC has arbitrarily chosen to apply an allocation of 11 percent.

As outlined in detail the MIEC’s Statement of Position pp. 4 - 5 and MIEC’s Initial Brief in this case at pp. 4 - 6, Ms. York’s testimony shows that MAWC’s distribution multiplier materially overstates the cost incurred to serve Rate J customers. Based on her CCOS study, which accounts for the length of distribution mains required to serve Rate J customers, Ms. York concludes that the distribution multiplier should be 1.17 percent or

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<sup>6</sup> Ms. York’s testimony more correctly tracks CCOS in several material respects, including (1) allocation of Source of Supply or Water Treatment costs to the Public Fire Class; (2) allocation of purchase power expense on both a base and extra capacity demand, rather than strictly on base usage (3) the industrial distribution multiplier used in the MAWC’s water CCOS has not been supported (4) the system load factors used to assign costs between the base and extra capacity functions should be modified to reflect the system ad factors used in the last rate case to be consistent with the customer class load characteristic indicated by the customer class peaking factors, and to reflect the methodology described in the AWWA Manual M1 (5) the Company’s definition of transmission and distribution mains should be revised to be consistent with the information produced in its annual reports to the Commission.

less – much lower than the multiplier used by MAWC. Ms. York also recommends that the Commission direct MAWC to conduct an updated study of the length of distribution mains serving Rate J customers.<sup>7</sup>

Respectfully submitted,

Curtis, Heinz, Garrett & O’Keefe, P.C.

By: /s/ Diana M. Plescia  
Diana M. Plescia #42419  
130 S. Bemiston, Suite 200  
St. Louis, Missouri 63105  
Telephone: (314) 725-8788  
Facsimile: (314) 725-8789  
E-mail: [dplescia@chgolaw.com](mailto:dplescia@chgolaw.com)

Attorney for the Missouri Industrial  
Energy Consumers

#### 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

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<sup>7</sup> Ex. 400, Direct / Rebuttal Testimony of Jessica York, p. 27, l. 3 – p. 33, l. 2.