BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water	)	
Company's Request for Authority to Implement	)	<u>Case No. WR-2020-0344</u>
General Rate Increase for Water and Sewer	)	Case No. SR-2020-0345
Service Provided in Missouri Service Areas.	)	

<u>MAWC'S STATEMENT OF POSITIONS</u>

COMES NOW Missouri-American Water Company ("MAWC", "Missouri American", or "Company"), and states the following to the Missouri Public Service Commission ("Commission") as its Statement of Positions as to issues described in the *Amended List of Issues, Order of Witnesses, Order of Cross-Examination and Order of Opening Statements* filed on February 17, 2021:

POLICY AND OVERVIEW

MAWC serves approximately 1 in 4 Missourians. MAWC has and continues to manage its operations responsibly and effectively to uphold its continued commitment to provide safe, clean and reliable water and wastewater services to its customers at reasonable rates. Nearly 90% of the Company's proposed revenue increase is driven by its ongoing investment in infrastructure. Those investments include improving the resiliency of the Company's distribution system and treatment plants, treatment changes to maintain regulatory compliance, technology investments that will integrate with existing systems to enhance service to customers, and management of source of supply and system demands. However, it is not possible to continue to meet service obligations properly without timely recovery of these expenditures.

The Commission approved Missouri-American's current rates by its order issued May 16, 2018 in Case No. WR-2017-0285. Those rates, which became effective on May 28, 2018, were based on costs that reflected a 2016 historic test year with certain updates through December of 2017. In this request for relief, the Company seeks new rates developed based on a test year ending May 31, 2022, in order to include the planned completion of investment projects that will be in service by that date, as well as projected increases to operating and maintenance costs.

There are two major drivers of the Company's need for rate relief: 1) regulatory lag associated with ongoing capital investment; and 2) revenue loss arising from declining usage. The Company has failed to collect the Commission approved revenue requirement established in Case No. WR-2017-0285. In fact, the Company has failed to achieve the approved revenue requirement in at least seven of ten years. Thus, in accordance with Section 386.266.4, RSMo, the Company has requested a Revenue Stabilization Mechanism (RSM).

Since its last rate case, the Company has invested or plans to invest nearly $950 million in its water and sewer facilities and distribution and collection system improvements. This is inclusive of the investments made and currently recovered through the Company's Infrastructure System Replacement Surcharge (ISRS). Since implementation of rates authorized in the last rate case, MAWC has invested over $250 million in distribution system improvements in St. Louis County.

Missouri-American faces significant cost recognition lag under its current ratemaking structure. Despite these constraints, Missouri-American ensures that funding is available to continue to preserve the safety and integrity of its systems for the protection of its customers, employees and operations. The Company continues to maintain adequate sources of supply, treatment, pumping, transmission and distribution facilities, as well as to comply with applicable laws and regulations – that is its public service obligation. But the necessary funding level to ensure the safety and integrity of the systems is not the same as the funding levels that best serve the long-term interests of customers. From the perspective of long-term sustainable customer service and pricing, the Company's goal is to continue providing high quality water and sewer service in the most affordable way through the replacement, operation, maintenance, and rehabilitation of assets for present and future customers. However, MAWC will not have the resources to continue these efficient, but discretionary, investments under the current proposals of the parties in this case.

The Company must have a realistic opportunity to collect its authorized revenue requirement, and recognition of the expense levels and plant that will be serving Missouri-American's customers when the new rates are in effect.

Dewey Dir., all; Dewey Reb., all.

LIST OF ISSUES

1. **Test Year** – What is the appropriate test year (historic or future test year), update, true-up period and discrete adjustments, if any, that the Commission should employ for purposes of determining MAWC's cost of service in this case?

MAWC Position: The Commission's *Order Setting Test Year and Adopting Procedural Schedule*, issued August 26, 2020, established a test year of the 12-months ending December 2019, with an update period of the six months ending June 2020, and a true-up period of the six months ending December 2020. The Order indicated that the parties may make specific (discreet) adjustments to the June 30, 2020, known and measurable revenue requirement calculation.

While a future test year, as originally proposed through May of 2022, the first full year new rates will be in effect) is the most appropriate way to set rates, the Company has subsequently proposed discrete adjustments though May of 2021 (when new rates are expected to become effective).

The Company has proposed the following discrete adjustments:

- Utility Plant in Service additions net of Contributions through May 2021;
- Additional Accumulated Reserve and changes in Accumulated Deferred Income Taxes on December 2020 Utility Plant through May 2021;
- Increased labor expenses due to union contract price changes or non-union merit increases, and changes to labor related items that are based on the wage rate – payroll taxes, 401K and DCP expense;
- Contractual price increases for Insurance Other than Group;
- COVID-19 AAO amortization;
- Increased United States Postal Service rates that take effect January 24, 2021;
- Contractual changes or other known price changes for production costs; and
- The Company's billing determinants and projected usage.

Including these projections will help better match the cost of service the Company will incur during the first year new rates are in effect. All plant MAWC proposes to include with these discrete adjustments will be in service and used and useful prior to new rates taking effect. Additionally, all the price changes will be known and measurable before rates take effect in this case. The net revenue requirement value of these adjustments is $3,570,982.

Watkins Dir., p. 21-33; Watkins Reb. Rev., All; Watkins Sur., p. 22-28.
LaGrand Reb. Rev., p. 3-5; LaGrand Sur., p. 2-4.

2. **Allocations** – What is the appropriate method to allocate MAWC corporate costs to the water and sewer districts?

MAWC Position: MAWC's method should be utilized to allocate MAWC corporate costs.

The Company used two different factors to allocate costs. First, the number of customers was used to allocate depreciation and amortization. Second, for all other operating expenses, the number of service orders was used as the allocation factor.

The Company chose service orders as the allocation factor for most corporate costs because after reviewing corporate costs with state operations personnel, the consensus was that water operations require far more time and resources, primarily due to the large number of service orders generated by water customers. Therefore, the Company's use of service orders as the primary allocation factor was reasonable. The simplicity of MAWC's method is a further advantage.

It is further significant that Staff's methodology allocates $1,976,736 in additional costs to the sewer customers over the Company's proposal. All else being equal, an addition of $1,976,736 in corporate costs increases the cost borne by sewer customers by 11.2%. If those costs remained with the water customers, as recommended by the Company, it would increase Staff's water revenue requirement by 0.6%.

LaGrand Reb. RD., p. 1-5.

3. **Rate Base**
   a. <u>Emerald Pointe & City of Hollister Pipeline</u> – Should the unamortized amount of the cost of the pipeline be included in rate base?

MAWC Position: In order to eliminate a failing sewer treatment plant, Emerald Pointe built a pipeline to a treatment plant owned by the City of Hollister. The pipeline started in Emerald Point's legacy certificated area, continued into certificated area granted for purposes of the pipeline (Case No. SA-2012-0362), and then crossed into the city limits of the City of Hollister. The project was placed into service in January of 2013.

As part of their agreement with the City of Hollister, Emerald Point was required to contribute to the City the portion of the pipeline within the Hollister city limits. The construction costs associated with that portion of pipeline were $323,321.

Staff's recommendation in Case No. SA-2012-0362 concluded that the pipeline was reasonable and cost effective. Additional benefits included the elimination of the existing treatment facility, elimination of sewage discharge into Table Rock Lake and having additional capacity available for future customers.

The Company acquired Emerald Pointe water and sewer in 2014 (WO-2014-0113 and SO-2014-0116). At the time of the acquisition, Emerald Pointe had recently completed a rate case (SR-2013-0016 and WR-2013-0017) in which the unamortized cost of the pipeline was given rate base treatment. The Company relied on that rate case outcome when acquiring Emerald Pointe, and in the acquisition case, there was no discussion of anything other than full rate base treatment. In fact, Staff included the unamortized portion as rate base in their recommendation in that case.

Rate base treatment of the unamortized balance is appropriate.

LaGrand Dir., p. 30; LaGrand Reb. Rev., p. 22-23.

b. <u>Cost of Acquisitions –</u> Should the unamortized amounts of the Hickory Hills and Woodland Manor acquisitions be included in rate base?

MAWC Position: Yes.

Hickory Hill

The Hickory Hills Water and Sewer system had long been a troubled system, which had fallen into receivership in 2007 and was in noncompliance with Department of Natural

Resources (DNR) regulations and permit effluent limitations. The Company's acquisition solved a long-standing problem for the Hickory Hills customers. The Hickory Hills receiver had taken out personal loans to cover some of the ongoing costs, and to reimburse two customers for sewer backup damage. The net book value of the assets was less that the amount of the debt, so in order to complete the sale of the assets, the Company was required to pay more than net book value.

Staff previously stated at the time of acquisition, "In Staff's view, the proposed payment made by MAWC to Hickory Hills that allows Mr. Cover reimbursement of a portion of his outstanding receivership fees and to pay off the personal loan was a reasonable and necessary investment by MAWC to enable transfer assets of a "troubled" utility under receivership to an experienced utility operator. The full purchase price of the Hickory Hills system is the Company's investment, and as such, the Company should be allowed its authorized return on this investment by including the full amount in rate base.

Woodland Manor

Among other things, the Commission in the Woodland Manor acquisition case (WM-2016-0169) authorized MAWC to record transaction costs up to a maximum of $40,000 as a deferred debit, and to amortize that balance over five years.

The Company included the Woodland Manor transition costs in rate base because as with any acquisition, the purchase price paid by the Company is an outlay of capital. The full purchase price of the Woodland Manor system is the Company's investment, and as such, the Company should be allowed its authorized return on this investment by including the full amount in rate base.

LaGrand Dir., p. 30; LaGrand Reb. Rev., p. 23-25.

c. Lead Service Line Replacements – Should the deferred balance of customer-owned lead service line replacements be included in rate base?

MAWC Position: Yes. The unamortized deferral balance should be included in rate base where it would earn the Company's cost of capital. In the event the Company is allowed to include the regulatory asset in rate base, MAWC would not seek to continue accruing carrying costs on these investments.

LaGrand Dir., p. 30-31; LaGrand Reb. Rev., p. 25-26; LaGrand Sur., p. 20-21.

d. Capitalized Depreciation – Should MAWC capitalize a portion of depreciation expense on tools and equipment partly used on capital projects?

MAWC Position: No. The assets have already been capitalized once and depreciation expense is being recovered currently in rates. There is no "double recovery" or "double capitalization" in this case. By capitalizing costs that have already been capitalized, the effect is to recover costs associated with shorter lived assets over a longer period. This will result in intergenerational equity issues, as ratepayers of tomorrow will pay more so today's ratepayers pay less.

LaGrand Reb. Rev., p. 34-36.

e. Cash Working Capital –
   i. What is the appropriate expense for lead or lag treatment for Service Company expenses?
   ii. What should the lead and lag treatment for income tax expense be in cash working capital?
   iii. American Water Works Service Company Prepaid Billing – Should the Commission authorize MAWC to recover its prepaid billing and payment arrangement as a service expense?

MAWC Position: The appropriate expense lead for service company expenses is 4.77.

All impacts from the Company's tax situation are appropriately accounted for in accumulated deferred income taxes, which are a reduction to rate base since the Company is in a net deferred tax liability position.

The Service Company bills its affiliates in advance for its service. This is recognized in the 4.77 day payment lead calculated by the Company. By utilizing a 75.34 expense day lag, Staff has made the assumption that the Service Company bills in arrears for the service it provides. It does not. If the Service Company billed in arrears it would have an additional cash working capital requirement and would have to pass the cost of that cash working capital along to MAWC.

LaGrand Dir., p. 28; LaGrand Reb. Rev., p. 19-21; LaGrand Sur., p. 16-18.
Wilde Sur., p. 8-9.

f. ADIT –
   i. Should MAWC's booked Accumulated Deferred Income Tax (ADIT) include a reduction for net operating loss?
   ii. If so, would there be an effect on the level of excess ADIT to be flowed back to rate payers?

MAWC Position: MAWC's booked ADIT should include a reduction for net operating loss (NOL). Failure to include an NOL, would result in a normalization violation.

As long as the NOL is included, no change to the excess ADIT will be required as the amounts identified by the parties already include the NOL impact.

Wilde Dir., p. 16-19; Wilde Reb., p. 2-9; Wilde Sur., p. 3.

4. **Excess ADIT** – What is the appropriate treatment for the flow back of unprotected excess ADIT to rate payers?

MAWC Position: The Average Rate Assumption Method (ARAM) should be used to amortize "protected" and "unprotected" excess ADIT ("EADIT") balances to customers consistent with the method and life used for protected plant-related EADIT balances, and consistent with the period over which the deductions related to investment in utility plant that gave rise to the EADIT will be recovered from customers. MAWC has proposed that unprotected *non*-plant EADIT be amortized using a 20-year period, consistent with the reversal period of the underlying book to tax differences. A 5 year straight line method should be applied for the EADIT amortization related to the stub period (or catchup period) of January 1 2018 through the date base rates will go into effect in this case, as was reflected in the Stipulation and Agreement in Case No. WR-2017-0285.

Wilde Dir., p. 3-16; Wilde Reb., p. 9-16; Wilde Sur., p. 2-8.

5. **Usage Normalization** – What is the appropriate level of normalized annual usage that the Commission should adopt for calculating normalized revenues for each rate class and service territory?

MAWC Position: The appropriate level of normalized annual usage that the Commission should adopt for calculating normalized revenues for each rate class and service territory is as follows:

Thousand Gallon Units

	St. Louis	Other MO	Total
Residential	23,233,717	5,897,264	29,130,981
Commercial	8,434,099	2,909,266	11,343,365
Industrial	2,749,365	3,148,938	5,898,302
Other Public Authority	484,568	686,292	1,170,860
Sale for Resale	2,830,604	2,406,219	5,236,823
Public Fire	43,995	2,003	45,998
Total	**37,776,347**	**15,049,982**	**52,826,330**

These usage levels result from the year regression normalization prepared by MAWC witness Roach to determine normalized usage for residential and commercial customers and a 12-month average to forecast Industrial, Sale for Resale and Other Public Authority classes as these classes are less suitable for statistical techniques as usage varies greatly from customer to customer.

The MAWC methodology to analyze residential and commercial customers is superior to simple averaging techniques as the Company's approach: 1) normalizes 10 years of usage for weather impact in each discrete year; 2) is able to normalize 10 years of usage for weather influences; and, 3) is able to identify and measure the impact of longer term structural usage decline due to the impact of forced conservation through fixture and appliance usage restrictions. As such, the Company's approach is the only proposed usage forecast that: 1) normalizes usage for weather influences; 2) identifies the impact of longer term structural usage decline due to the impact of forced conservation through fixture and appliance usage restrictions, and 3) is not influenced by the one-time impact of COVID-19 perturbations. Due to those three features, the Company's forecast has the highest probability of incorporating accurate future trends and normalized weather resulting in rates being set that are equitable for customers and the Company.

Roach Dr., All; Roach, Reb., All; Roach Sur., All.
LaGrand, Dr., Schedule BWL-3, CAS 11-12.

6. **Water Utility Revenues** – What are the appropriate revenues to use to determine the increase or decrease in water service revenue requirement?

MAWC Position: MAWC has calculated present rate revenue of $302,544,970.

LaGrand Reb., Rev., p. 5-15.

a. Residential Revenue – What is the appropriate number of meters for fixed or customer charge to be used for revenues?

MAWC Position:

	Number of Bills Annually	
	Residential	
Meter Size	St. Louis	Other MO
5/8"	3,449,258	1,291,289
3/4"	288,749	18,925
1"	93,148	68,652
1.5"	3,981	1,806
2.0"	12,184	1,639
3.0"	264	36
4.0"	269	0
6.0"	302	0
8.0"	520	2
10.0"	37	0
12.0"	0	0

LaGrand Dr., Schedule BWL-3, CAS 11-12.

i. <u>Non-Residential Revenues</u> – What is the appropriate annualized number of meters level for each revenue class?

MAWC Position:

	Number of Bills Annually							
	Commercial		Industrial		Other Public Authority		Sale for Resale	
Meter Size	St. Louis	Other MO	St. Louis	Other MO	St. Louis	Other MO	St. Louis	Other MO
5/8"	85,881	65,672	0	501	1,745	3,649	0	12
3/4"	35,294	1,984	0	60	2,064	230	0	0
1"	24,311	21,995	21	389	1,573	2,211	0	24
1.5"	11,657	4,051	58	12	714	1,033	0	0
2.0"	35,457	19,450	253	1,259	2,494	4,580	0	217
3.0"	3,025	720	294	152	414	528	0	47
4.0"	2,219	888	382	356	253	601	0	84
6.0"	1,972	315	352	190	374	98	0	62
8.0"	2,774	170	193	106	97	124	0	24
10.0"	695	50	104	0	38	0	0	0
12.0"	0	0	0	0	0	0	0	0

LaGrand, Dr., Schedule BWL-3, CAS 11-12.

7. **Sewer Utility Revenues** – What are the appropriate revenues to use to determine the increase or decrease in sewer service revenue requirement?

MAWC Position: The Company calculated present rate sewer revenues of $11,117,889.

LaGrand Reb. Rev., p. 15-16.

a. What is the appropriate number of units to be used for fixed or customer charge?

MAWC Position:

Meter Size	Arnold	Other MO
Flat	116,848	99,227
5/8"	0	1,396
1"	0	420
1.5"	0	168
2.0"	0	60
3.0"	0	36

LaGrand, Dr., Schedule BWL-3, CAS 11-12.

8. **Rate of Return/Capital Structure**
    a. Return on Common Equity – What is the appropriate return on common equity to be used to determine the rate of return?

MAWC Position: In this proceeding, consistent with standalone ratemaking principles, it is appropriate to establish the cost of equity for MAWC, not is parent, American Waterworks (AWK). More importantly, however, it is important to establish a return on equity and capital structure that provide MAWC with the ability to attract capital on reasonable terms, on a standalone basis, and within the AWK system. All the utility operating subsidiaries within the AWK corporate structure compete for discretionary capital. Unless MAWC is provided a reasonable opportunity to earn a market-based return on equity with an appropriate capital structure, it will be at a disadvantage in attracting discretionary capital from its parent company resources.

The appropriate return on equity (ROE) to be used to determine a fair rate of return for MAWC is in the range of 9.75% to 10.60%, as supported by the testimony of Company witness Ann Bulkley. Ms. Bulkley developed her recommendation based on her review of a proxy group of water and natural gas utility companies that face risks generally comparable to those faced by MAWC. To her proxy group, Ms. Bulkley applied the constant growth form of the Discounted Cash Flow model (DCF), the Capital Asset Pricing model (CAPM), the Empirical Capital Asset Pricing model (ECAPM), and the Expected

Earnings Analysis. Taking into consideration the following risk factors: (1) MAWC's capital expenditure requirements; and (2) the Company's regulatory risks as compared to the proxy group, Ms. Bulkley concludes that an appropriate ROE of 10.5% is reasonable and appropriate in this case.

Bulkley Dir., All; Bulkley Reb., All; Bulkley Sur., All.

b. Capital Structure – What capital structure should be used to determine the rate of return?

MAWC Position: The appropriate capital structure to use is the standalone capital structure of MAWC consisting of 53% equity and 47% long-term debt. This capital structure should be used to calculate the weighted average cost of capital for MAWC because it reflects the capital that will be in place to fund the Company's rate base during the period of time rates set in this proceeding will be in effect. MAWC's equity ratio of 53% is within the range of equity ratios established by the capital structures of the utility operating subsidiaries of the proxy companies. A capital structure consisting of 53% common equity and 47% long-term debt is reasonable considering the variability of the Company's cash flows resulting from factors such as declining use, historical test years for ratemaking purposes, and the inability to recover investments and certain assets between rate proceedings.

Use of AWK's consolidated capital structure, as proposed by Staff and OPC, is not reflective of the way in which MAWC is actually operated, is contrary to the dictates of the United States Supreme Court in the *Hope* and *Bluefield* cases, as well as this Commission's precedent in the *Spire* rate case, and is incompatible with financial theory. Any lower imputed equity ratio than MAWC's actual equity ratio would require a commensurate, upward adjustment in the authorized ROE, negatively affect MAWC's ability to attract discretionary capital and would present negative incentives for MAWC to adjust its equity ratio, reducing investment to Missouri and weakening the credit metrics for the Company.

Bulkley Dir., p. 81-89; Bulkley Reb., p. 5-21; Bulkley Sur., p. 5-35.
Merante Reb., All.
LeGrand Dir., p. 12-19.
Kaiser Sur., p. 11-12.

c. Debt/Preferred Stock Rates/Costs – What Debt/Preferred Stock Rates/Costs should be used to determine the rate of return?

MAWC Position: MAWC's cost of long-term debt for the future test year ending May 31, 2022 is 4.70%. This is the actual cost of debt that MAWC will incur and will be obligated to pay on its long-term debt during the period rates set in this proceeding will be in effect.

The Company's preferred stock balance as of December 31, 2019 was $250,000. However, reflecting the annual sinking fund payment of $250,000 that occurred in November 2020, the Company's preferred stock balance was paid off. Thus, the Company's pro forma adjusted preferred stock balance and cost of preferred stock are both zero.

LaGrand Dir., p. 12-19.

9. **Amortizations** –
   a. AFUDC regulatory amortization – What is the appropriate treatment of AFUDC regulatory amortization in this case?

MAWC Position: There are two types of AFUDC regulatory assets. The first is related to the gross up for AFUDC equity. This regulatory asset reflects the tax gross up of the equity portion of AFUDC that is recorded in construction work in progress. The second is related to the tax gross up treatment required with the implementation of FAS 109, issued in February 1992 relative to AFUDC Debt. The balances in these regulatory assets represents AFUDC costs that would otherwise be capitalized into utility plant and recovered through depreciation expense.

LaGrand Reb. Rev., p. 36-38.

10. **Main Break Expense** – What is the appropriate amount of main break expense to be included in the cost of service?

MAWC Position: Main break expense should be based on a three year average of the actual number of main breaks. As of December 31, 2020, the three year average expense for St Louis County is $2,062,468.

Bowen Dir., p. 18; Bowen Reb., p. 16-18; Bowen Sur., p. 8.
Kaiser Sur., p. 7-10.

11. **Maintenance Expense** – What is the appropriate amount of Maintenance Expense other than main break expense should be included in the cost of service calculation?

MAWC Position: $1,279,956 should be included in building maintenance and expense for the period ending December 31, 2020.

Bowen Dir., p. 19; Bowen Sur., p. 8-9.

12. **Outside Services** – What is the appropriate amount of expense related to outside services that should be included in the cost of service calculation?

MAWC Position: The appropriate amount for the Company's outside services expense for the period ending December 2019 is $4,112,876.

Bowen Sur., p. 3-4.

13. **Postage Expense** – What is the appropriate amount of postage expense to include in the cost of service calculation?

MAWC Position: Effective January 2020, the Company transferred postage and customer accounting expenses from MAWC to the Service Company. These expenses are included in Support Services for the Company's expense levels through December 31, 2020, as the accounting change was effective as of January 2020.

Effective January 24, 2021, the United States Postal Service ("USPS") announced prices would increase approximately 1.8% for First-Class Mail and 1.5% for other categories. In addition, MAWC has St Louis County customers that the Company intends to convert from quarterly to monthly billing. These two adjustments result in a $114,903 increase to the December 31, 2020 expense level.

Bowen Dir., p. 13-14; Bowen Sur., p. 5-7.
Wright Dir., p. 10-11; Wright Reb., p. 8-10.

14. **Tank Painting Expense (Engineered Coatings)** –

   a. <u>Tank Painting Expense (Engineered Coatings)</u> – What is the appropriate amount for tank painting expense to be included in the cost of service calculation?

MAWC Position: If the costs associated with engineered coatings are not capitalized, $3,328,924 should be included as an expense in the cost of service calculation. MAWC currently has more than 106 steel tanks throughout its water systems. These structures tanks MAWC are continuing to age and many of these tanks are nearing the life expectancy of their existing coating systems. Many others tied to recent acquisitions have not been properly maintained for some time and will require new coating systems to extend the life of the structure.

LaGrand Dir., p. 24-25; LaGrand Reb. Rev., p. 28-29; LaGrand Sur., p. 19-20.
Kaiser Dir., p. 33-40; Kaiser Re. Rev., p. 3-6.

   b. <u>Capitalization</u> – Should tank painting expense (engineered coatings) be capitalized going forward?

MAWC Position: Yes. The Company should be permitted to capitalize investments in Engineered Coatings in USOA account 342, and to depreciate those assets over 20 years as coatings are accurately compared to pump impellers, clarifier drive units, and other items that are a major portion of the initial capital investment and a critical component of the overall working assembly. Similar to engineered coatings, these items themselves have a significant value and life cycle, and as such are routinely capitalized when replaced

LaGrand Dir., p. 24-25; LaGrand Reb. Rev., p. 28-29; LaGrand Sur., p. 19-20.
Kaiser Dir., p. 33-40; Kaiser Re. Rev., p. 3-6.

15. **Income Tax Gross Up Factor** – Should the income tax gross-up factor include consideration of uncollectibles and PSC assessment?

MAWC Position: MAWC does not take into account the PSC assessment in its income tax gross up factor. If the Commission should rule that increased uncollectibles would accompany higher revenues, uncollectibles should be included in the gross up factor.

LaGrand Reb., p. 49.

16. **Service Company Costs** –
    a. Sale of New York American – Should service company costs be increased to account for the sale of New York American by American Water Works?

MAWC Position: Yes. American Water Works Company, Inc., (AWWC) is selling 100% of the outstanding stock of New York American Water Company (NYAW). Service Company expenses will be reallocated over the remaining AWWC operating utilities, including MAWC. As a result, approximately $1.4 million in additional Service Company expenses will be assigned to MAWC as a result of the sale. Even after offsetting the additional $1.4 million in Service Company charges, inclusive of savings, the cost of Service Company services is still significantly lower than outside providers. MAWC and its customers will continue to benefit from the high-quality services of the Service Company that remain a good value for MAWC and its customers in spite of the additional charges resulting from the divestiture of NYAW.

Baryenbruch Sur., p. 3-6.
Bowen Dir., p. 14-15.

b. American Water Works Officer Expense – Should the Commission authorize MAWC to recover officer expense for MAWC's corporate officers?

MAWC Position: Yes. Sound Corporate Governance dictates that subsidiary operations, management, accounting, and financial documentation be handled apart from the operations of the parent and its other subsidiary and affiliated entities. Separate capacities may include: holding meetings; exercising independent business judgement; avoiding comingling of assets; ensuring arms-length transactions; and maintaining separate record keeping, all of which are essential to maintaining corporate formalities and properly insulating the subsidiary utility from that of its parent and affiliated entities

Bowen Sur., p. 4-5.

c. Credit Line Fee Charge – Should the Commission authorize MAWC to recover credit line fee charges with American Water Service Company as a service expense?

MAWC Position: MAWC has extremely good access to capital and the fees it pays that are associated with the access are reasonable.

17. **Property Tax** –

a. Property Tax Expense - What is the appropriate level of property tax to be included in rates?

MAWC Position: Staff only includes the property taxes based on plant in service as of December 31, 2018. The Company is including projected property taxes of $30,945,739 associated with plant in service for the period ended May 31, 2022. At a minimum, property taxes should be included for plant in service at the end of the true-up period – December 31, 2020.

LaGrand Dir., p. 39-41; LaGrand Reb. Rev., p. 47-49; LaGrand Sur., p. 21-24.

b. Property Tax Tracker - Should the Commission implement a property tax tracker?

MAWC Position: Yes. First, property taxes are a result of capital investment made to replace aging infrastructure. The replacement of aging infrastructure should be encouraged by the Commission, and expenses directly related to infrastructure investments should be considered differently. Second, property taxes should be a pass through. The Company currently collects a level of property tax in rates, and then pays a higher level to the taxing authorities each year, with an ever-increasing gap between what is included in rates and the payment actually made. The Company has no control over tax rates or other aspects of the development of the tax paid. The current treatment of property taxes is one more way in which MAWC's opportunity to earn its authorized rate of return is diminished from the day new rates go into effect.

LaGrand Dir., p. 39-41; LaGrand Reb. Rev., p. 47-49; LaGrand Sur., p. 21-24.

18. **Purchased Power** – What is the appropriate level of expense for purchased power in the cost of service calculation?

MAWC Position: The fuel and power expense was derived by starting with the 2019 base year and normalizing the expenses, which included removing accrual and other non-relevant amounts. The base year was then adjusted for known rate changes and annualized. The adjusted amount was then divided by the historical system delivery to develop a price per system delivery rate. When price per system delivery rate is applied to the Company's true-up system delivery through May of 2022, the annual expense level should be $11,061,068.

Wright Dir., 7; Wright Reb., p. 4-6; Wright Sur., p. 2.

19. **Insurance Other than Group** – What is the appropriate amount of insurance expense to recover in rates?

MAWC Position: The Directors & Officers (D&O) Policy is important as it would be extremely difficult to recruit qualified persons to serve on a Board of Directors or in the capacity of executive management without a policy of insurance to indemnify and defend the Board of Directors and Corporate Officers. The Company recommends full recovery of the cost for this insurance coverage. This would result in an increase of expense of $48,785 dollars.

The Consultation Fee is for insurance brokerage services, for example placement of insurance programs, issuance of certificates of insurance, auto id cards, and claims advisory services for Auto Liability, General Liability, and Workmen's Compensation. This would result in an increase in expense of $36,770.

There should not a 10% capitalization rate applied to insurance policies other than worker's compensation. Claims that fall under these policies are related to injuries and damages to third parties. These costs are not for putting plant in service and thus should not be subject to capitalization. This would result in an increase in expense of $531,324.

Bowen Reb., p. 11-12.

20. **Uncollectible Expense** – What is the appropriate amount of uncollectible expense to recover in rates?

MAWC Position: Uncollectible expense should be based on a percentage of authorized revenues. MAWC recommends that the median percentage of net charge-offs per annual revenue from 2010-2019 of 1.03% be used, which is very much in line with the 1.02% experienced during 2019.

Wright Dir., p. 12-14; Wright Reb., p. 11-16; Wright Sur., p. 3-8.

21. **Pension & OPEBs** –

a. What is the appropriate amount of Pension & OPEB expenses to be included in rates?

MAWC Position: There is a difference between Staff and MAWC that results from the timing of the change in Pension Expense and tracker amortization after the Company's last rate base. This results in Staff's calculation overstating the tracker balance by $79,984.As with the Pension tracker there are some timing differences , which understate the tracker balance by $237,201. Additionally, there is a minor error in Staff's number that understates the OPEB balance by $10,003.

LaGrand Dir., p. 32-35; LaGrand Reb. Rev., p. 27-28.

b. What is the appropriate amount to include in OPEBs for retiree reimbursements?

MAWC Position: Staff excluded OPEB retiree reimbursements, which overstates the tracker balance by $6,884.

LaGrand Reb. Rev., p. 27-28.

22. **Lobbying Expense** – What is the appropriate amount of payroll tied to lobbying expense?

MAWC Position: No amount of payroll should be removed for a connection to lobbying. There is no reason to deny recovery for lobbying activities that are carried out by an employee of the Company. All companies, including utilities, must lobby the legislature to ensure that laws that are enacted are in the best interest of the Company and its customers.

Bowen Dir., p. 16-17; Bowen Reb., p. 5.

23. **Incentive Compensation (APP & LTPP)** – Should incentive compensation related to earnings per share (EPS) and other financial goals be included in the cost of service calculation?

MAWC Position: Yes, market -based total compensation, including an element related to earnings per share and other financial goals should be included in the cost of service calculation. Staff's recommendation to disallow 50% of the annual performance plan ("APP") for both MAWC and Service Company employees and 100% of the long-term performance plan ("LTPP") for both MAWC and Service Company employees should be rejected. Staff's proposed adjustments would disallow $3,208,032 from the Company's operating expense in this case.

Missouri-American offers compensation that has allowed it to attract and retain customer-committed, dedicated and highly qualified employees. The Company's overall compensation philosophy is to provide employees with a total compensation package that is market based and competitive with those of comparable organizations with jobs of similar responsibility. As part of its compensation philosophy, MAWC has chosen to place a portion of its compensation at risk, driving continued performance across the enterprise. Specifically, the Company targets its total direct compensation (inclusive of base and at-risk compensation) for each role near the market median (50th percentile). By using a combination of fixed and base and at-risk compensation, MAWC ensures competitive market-based compensation for all employees, while continuing to motivate employees to achieve goals that will improve performance and efficiency for the benefit of customers.

Employee compensation is a cost of providing utility service, not unlike any other prudently incurred cost of service recoverable in rates. Employee compensation must therefore be assessed through the same lens as all other operating costs of the Company.

The Company's total direct compensation expense is reasonable and prudently incurred and thus, should be recoverable like all other costs of service.

Evitts (Kaiser) Dir., p. 32-35; Kaiser Reb. Rev., p. 6-13.
Mustich Dir., all.

24. **Employee Benefits (ESPP)** – What is the appropriate treatment of the ESPP in regard to the cost of service calculation?

MAWC Position: The cost of service calculation should include $181,657 for the cost of the Company's Employee Stock Purchase Plan ("ESPP"). The ESPP is open to all active, full- or part-time employees and is effectuated through payroll deductions. Although not a specific cash outlay, the discount received by employees purchasing shares is compensation. Just like the other benefits the Company provides to its employees, the ESPP is part of an employee's overall compensation, and a reasonable expense that should be included in the Company's labor and labor related expense as part of the cost of service calculation.

Bowen Reb., p. 6-8.

25. **Payroll Expense** –

  a. Employee Positions – Should the Commission include currently vacant and temporary payroll positions when calculating MAWC's operating expense?

MAWC Position: MAWC is seeking recovery of 719 full time positions. This includes the Company's actual headcount at December 31, 2020 of 718 positions, and one open position for the Vice President of Operations, which was filled on February 8, 2021.

Bowen Reb., p. 3-5; Bowen Sur., p. 1-3.

b. Service Company Payroll – What level of payroll for American Water Service Company personnel should the Commission include in rates?

MAWC Position: The actual employee count of 1,175 should be used. Using Staff's O&M percentage, and labor calculation results in an increase to labor and benefits expense of $7,688,062, inclusive of incentive compensation.

Bowen Reb., p. 10-11.

26. **Employee/Management Expense** – What level of employee / management expense should be included in the calculation of cost of service?

MAWC Position: The expense for the period ending 12/31 is $732,467. MAWC included $817,946 of expense through the future test period.

Bowen Reb., p. 18-19.

27. **Credit Card Fee Expense** – Should the Commission include credit card fees in the calculation of cost of service?

MAWC Position: Yes. Credit card fees should be included in the overall cost of service. Staff recommended that $706,464 be included in the revenue requirement to account for credit card fees that are incurred when the customer uses a credit. The Company accepts Staff's amount of credit card fees for inclusion and the Company will work with Staff to determine the appropriate reporting metrics and customer communication plan.

LaGrand Dir., p. 41-42; LaGrand Reb. Rev., p. 47; LaGrand Sur., 24.

28. **Dues and Donations** – What is the appropriate amount of dues and donations expense to be included in the cost of service calculation?

MAWC Position: $ $192,813 should be added to Staff's calculation of dues and donations conservation and environmental education, chambers of commerce dues, and

American Water Works Association membership dues should be included in the Company's revenue requirement.

Bowen Reb., p. 13-16; Bowen Sur., p. 7-8.

29. **Rate Case Expense** –

a. Sharing of Cost – Should rate case expense be shared?

MAWC Position: No. As an initial matter, costs of the local hearing notices and the depreciation study required by the Commission should not be shared. The remainder of MAWC's costs are reasonable and prudent, are a normal cost of doing business as a public utility, and should also be recovered in whole.

LaGrand Reb. Rev., p. 40-45; LaGrand Sur., p. 24-26.

b. Expense - What amount of rate case expense should be borne by the ratepayers?

MAWC Position: The Company will incur approximately $1,778,375 in costs associated with this rate case. When amortized over 36 months, this results in $568,292 of annual rate case expense.

LaGrand Reb. Rev., p. 40-45; LaGrand Sur., p. 24-26.

c. Normalization Period – What is the appropriate normalization period for recovering rate case expense?

MAWC Position: Rate case expense should be amortized over 36 months (3 years).

LaGrand Reb. Rev., p. 40-45; LaGrand Sur., p. 24-26.

30. **PSC Assessment** – What is the proper methodology and amount that should be included for the Missouri Public Service Commission (PSC) assessment?

MAWC Position: The Company calculated the annual PSC assessment based on a three-year average expense derived from 2017, 2018, and 2019. Use of a three-year average is more representative of the fluctuations in the fee and expense for the period in which rates will be in effect.

Bowen, Reb., p. 12-13.

31. **Production Costs**
    a. Purchased Water – What is the appropriate amount of purchased water expense to recover in rates?

MAWC Position: The Commission should include $1,331,305 in the cost of service calculation for purchased water. This is based on a The Company proposed using three-average of billed usage for all service areas except Parkville and City of Lawson

Wright Dir., p. 5-7; Wright Reb., p. 1-4.

32. **Leases** – What is the appropriate level of expense for leases to include in the cost of service calculation?

MAWC Position: The Commission should include $491,879 in the cost of service calculation for leases or rents.

Wright Dir., p. 11.

33. **Transportation** – What is the appropriate level of expense to include in the cost of service calculation for transportation related to fuel?

MAWC Position: MAWC agrees with the methodology used by Staff for fuel costs. However, updates through the true-up period should be included.

Wright Dir., p. 11-12; Wright Reb., p. 10.

34. **Waste Disposal** – What is the appropriate amount to include in the cost of service calculation for waste disposal expense?

MAWC Position: The Commission should include $2,759,483 in the cost of service calculation for waste disposal expense. The amount includes costs incurred and accrued-for based on the scheduled frequency of cleanings as the result of current operations.

Wright Dir., p. 8-9.

35. **Valve/Hydrant Maintenance** – How should valve and hydrant maintenance be recorded in the general ledger moving forward?

MAWC Position: At the conclusion of this case, the Company suggests that it meet with Staff to review both matching invoices against the general ledger detail and the general ledger mapping. These discussions would likely result in process improvements for the Company's next rate case that would benefit both Staff and the Company.

LaGrand, Reb. Rev., p. 50.

36. **AFUDC –**

a. <u>AFUDC Calculation</u> – What is the proper calculation of the Allowance for Funds Used During Construction (AFUDC) rate?

MAWC Position: MAWC's current method which it has used to calculate AFUDC since prior to the WR-2003-0500 rate case. That method is consistent with the Uniform System of Accounts applicable to MAWC.

LaGrand Reb. Rev., p. 29- 33; LaGrand Sur., p. 8-10.

b. <u>Rate Base Adjustment</u> – Should rate base be adjusted to reflect a corrected AFUDC rate?

MAWC Position: No. As stated above, the current AFUDC method has been used since prior to the WR-2003-0500 rate case. The Company has completed six general rate cases since 2003, all of which included rate base specific to AFUDC calculated consistent with this methodology and none of which directed a change to this method. If a change in method were ordered, it should be prospective only, as any retroactive application would be a collateral attack on final order and decisions of the Commission (Section 386.550, RSMo) and cause a significant write-off from the Company.

LaGrand Reb. Rev., p. 29- 33; LaGrand Sur., p. 8-10.

c. Adjustment to Capital Structure – If short-term debt is not applied to Construction Work In-Progress (CWIP) first, then should short-term debt be included in MAWC's capital structure?

MAWC Position: No. the Company uses short-term debt and other sources of funds including customer payments to finance a variety of its operational needs including capital spending, employee payroll, general taxes and payments to vendors for maintenance expenses. Therefore, since short-term debt is primarily used to fund working capital requirements, it is not reasonable to include short-term debt in the capital structure for MAWC to finance long-term assets.

Bulkley Re., p. 6-11; Bulkley Sur., p. 2-3, 25-28.

37. **COVID-19 Accounting Authority Order** –

a. Recovery – How much, if any, of MAWC's COVID-19 AAO should the Commission approve for recovery in MAWC's rates?

MAWC Position: MAWC should recover $4,575,311 as of December 31, 2020. Further, the balance through March 31, 2021 added to this for recovery in this case.

LaGrand Dir., p. 4; LaGrand Reb. Rev., p. 26-27; LaGrand Sur., p. 11-16.

b. Interest Expense – Should interest expense be recoverable in rates as part of the COVID-19 AAO agreed to in Case No. WU-2020-0417?

MAWC Position: MAWC's portion of the deferred interest expense associated with the term loan executed by American Water during the COVID-19 emergency should be recoverable in rates. The term loan was necessary to ensure adequate liquidity for American Water's regulated operating utilities by retaining this amount in cash, in the event other sources of financing were not available at reasonable rates or in sufficient quantity to meet the operating needs of the business. The volatility and uncertainty that have existed during the pandemic, specifically during the early months, demonstrated significant risks to American Water's regulated utilities. The proceeds from the term loan have continued to be retained in cash for the benefit and protection of the Company's regulated utilities and their customers, including MAWC.

LaGrand Sur., p. 11-16.

c. Amortization – Over what period should the COVID-19 AAO be amortized?

MAWC Position: Three years is an appropriate time period because it is consistent with both a normal period between rate cases, and with other proposed amortizations.

LaGrand Sur., p. 13.

38. **System Delivery** –

a. Water Loss – What is an acceptable level of water loss for the MAWC systems?

MAWC Position: MAWC is operating in its systems in a reasonable manner and has in the past been aggressive with its investments in those systems. Given those actions, the current level of water loss is acceptable.

Kaiser Sur., p. 10.

b. Water Loss Applied to Production Costs – What is the appropriate water loss to apply to chemicals, and fuel and power expense?

MAWC Position: MAWC believes that a three year average of historical water loss is the most appropriate for adjusting chemicals and fuel and power. However, Staff's five-year average and the Company's three-year average have produced a similar overall normalized percentage of water loss and the Company is willing to accept Staff's normalized percentage of water loss.

Wright Sur., p. 1-3.

c. Main Break Audit – Should MAWC conduct annual audits regarding its water main breaks?

MAWC Position: MAWC will agree to provide the Staff and OPC with any operational information they may deem necessary for oversight of the water utility.

Kaiser Sur., p. 10.

d. Water Loss Audit – Should MAWC conduct period audits for service areas with greater than 20% lost or unaccounted for water?

MAWC Position: MAWC will agree to provide the Staff and OPC with any operational information they may deem necessary for oversight of the water utility.

Kaiser Sur., p. 10.

39. **Depreciation** – What are the appropriate depreciation rates and resulting expense that should be applied?

MAWC Position: The Commission should authorize the depreciation rates calculated by MAWC witness Larry Kennedy.

Further, when the Company acquired the Woodland Manor, Benton County Sewer, and Jaxson Estates Sewer, the Commission orders in those cases directed the Company to adopt the then existing Commission approved depreciation rates for those systems. The Company proposes that the three identified systems be placed on whatever depreciation rates are ultimately approved in this case.

Kennedy Dir., All; Kennedy Sur., p. All.
LaGrand Reb. Rev., p. 36

40. **Affiliate Transactions** – Should MAWC be required to file a Cost Allocation Manual with the Commission?

MAWC Position: No. As part of the Stipulation and Agreement in Case No. WR-2007-0216, the Company agreed to continue providing a CAM to Staff and OPC by March 16th of each year. Any further issues should be addressed in Case No. AW-2018-0394, which is currently open and will address changes to the affiliate rules and whether the affiliate rules should be expanded to include water and sewer companies.

LaGrand Reb. Rev., p. 45-47; LaGrand Sur., p. 11.

41. **Low-Income Pilot Program** –

a. Should the Commission maintain the current Low-Income Rate pilot program?

MAWC Position: Yes, with the expansion described below.

LaGrand Dir., p. 21.

b. Should the Commission authorize MAWC to expand its Low-Income Rate pilot program?

MAWC Position: The Low Income Rate pilot program is available to water customers in St. Joseph, Parkville and Brunswick. The Company proposes maintaining the existing Low Income Rate Pilot, and expanding it to include the Lawson service area, as this program has been of assistance to those that have participated. Lawson is located in close proximity to the other eligible service areas in the northwest part of Missouri. Additionally, some residents of Lawson are served by United Services Community Action Agency, which also serves customers in Parkville. The other residents are served by the Missouri Valley Community Action Agency.

Additionally, MAWC requests that the Commission consider including in future acquisition cases any small systems acquired by MAWC that are located in the Northwest portion of the state. The Company would contemplate including this request as part of the subject acquisition case.

LaGrand Dir., p. 21; LaGrand Sur., p. 5.

c. What is the appropriate design of the Low Income Rate?

MAWC Position: The Low Income Rate should continue as currently designed - The qualifying customers should be provided with a discount of 80% of the fixed 5/8” meter minimum customer charge, and MAWC should be allowed to defer such discount amounts for future recovery

LaGrand Sur., p. 5.

42. **Inclining Block Pilot Program** –

   a. Should the Commission re-authorize MAWC's inclining block pilot program in its Mexico service area?

MAWC Position: Yes, with increased price differentials between different blocked rates in the blocked rate structure.

Rea Dir., p. 28-31.

   b. What are the appropriate blocks for the inclining block rate pilot program?

MAWC Position: The Company proposes to increase the price multiples to 1.30 and 1.80 and continue to monitor consumption patterns in Mexico and compare those consumption patterns to other districts until the next rate case.

Rea Dir., p. 28-31.

43. **Revenue Stabilization Mechanism (RSM)** –

   a. Should the Commission approve a Revenue Stabilization Mechanism for MAWC? And if so, how should the RSM be structured in terms of revenue requirement, included customer classes, the calculation of refunds, the inclusion of production costs, or other factors?

MAWC Position: Yes. Section 386.266.4, RSMo authorizes a RSM ". . . to ensure revenues billed by such water corporation for regulated services equal the revenue requirement for regulated services as established in the water corporation's most recent general rate proceeding or complaint proceeding . . . due to any revenue variation resulting from increases or decreases in residential, commercial, public authority, and sale for resale usage." (emphasis added).

Although most of Missouri-American Water's costs are fixed, its rate structure is based, largely, on volumetric charges. Consequently, any factors that affect sales, either positively or negatively, will necessarily drive a wedge between Authorized Revenues in this case and the actual level experienced on a going forward basis. In fact, MAWC has failed to collect its authorized revenue requirement in at least 7 of 10 years.

The Company's proposed RSM is designed to align the Company's revenues with the level the Commission uses to set rates in this case going forward. The mechanism effectively addresses the unpredictable changes in volume of water sold due to factors beyond the control of the Company. The RSM avoids windfalls or shortfalls by ensuring that the Company collects the amount of Authorized Revenues and that customers pay no more or less than the revenue level found appropriate to produce just and reasonable rates. If revenue is higher than expected, the net difference will be credited to customers. Conversely, if revenue is lower than expected, the RSM will make up the net difference to the Company.

Revenue variation associated with changes in weather and customer usage are of such a magnitude that they materially impact the utility and its ability to earn a fair return on equity. Further, these matters are beyond Missouri-American's control. The RSM provides the Company with a sufficient opportunity to earn such a return as it makes adjustments for these matters beyond Missouri-American's control, while preserving the Company's incentive to manage its expenses and investments.

Watkins Dir., p. 3-21; Watkins Reb. RD, p. All; Watkins Sur., p. 1-22.
Rea Sur., p. 10-13.

b. If so, is there a change in business risk that may be taken into account in setting MAWC's authorized return on equity?

MAWC Position: No. MAWC witness Bulkley found that 63.6% of the operating companies of her proxy group have some form of mechanism that results in increased revenue stability. Therefore, to the extent that MAWC is not granted its proposed revenue decoupling mechanism in this rate case, its business risk would be elevated, relative to the proxy group.

Bulkley Dir., p. 78-79; Bulkley Reb., p. 28; Bulkley Sur., 62-63.

44. **Water Rate Design**

a. Single Tariff Pricing / District Specific Pricing – Should the Commission keep the current water district structure, or adopt single tariff pricing for the water customers?

MAWC Position: The Commission should consolidate all Rate A customers into one statewide tariff and consolidate all large user tariff customers into one statewide tariff.

Rea Dir., p. 21-28; Rea Reb. RD, p. 16-33; Rea Sur., p. 7-10.

b. Industrial Class – Should MAWC create an industrial customer class (Rate L)? Should the Commission eliminate Rate J and begin the migration of customers that do not qualify for a new Rate L to Rate A?

MAWC Position: Yes. The Commission should adopt the Company's proposed new large user tariff titled Rate L, which will ultimately take the place of the Company's current Rate J offering. The proposed Rate L tariff will be available to customers using 3,000,000 gallons of water per month or more (as opposed to the 450,000 gallon limit currently for Rate J).

The proposed Rate L tariff will contain a two-part pricing mechanism. The first part is a "Base Usage" part which will apply to a customer's constant year-round consumption. The second part is an "Extra Use" component that will be higher priced and will apply to a customer's seasonal use above the Base Usage component.

Customers currently on Rate J that will not qualify for Rate L will be grandfathered onto a new rate that will ease the transition from current Rate J volumetric rate levels to

Rate A volumetric rate levels. This proposal is related to the cost basis of the rate, and partly because of the difficulties in administering the current Rate J offering.

Rea Dir., p. 31-37; Rea Reb. RD, p. 9-16; Rea Sur., p. 5-7.

c. Class Costs –

i. What is the appropriate cost of service for each customer class?

MAWC Position: The appropriate cost of service for each customer class is as follows:

Residential	$278,951,990
Non-Residential	$86,414,435
Rate L	$13,794,209
Rate B	$7,255,090
Rate F	$8,769,157
Contract Customers	$8,769,157

Rea Dir., p. 3-16.

ii. What is the appropriate methodology for conducting the class cost of service study?

MAWC Position: The Company's two step approach to cost of service should be adopted by the Commission. This cost service methodology provides more information than previous one-step methodologies without sacrificing accuracy or precision. The class allocations produced by the Company's cost of service study are appropriate and should be adopted by the Commission.

Rea Reb. RD, p. 2-8; Rea Sur., p. 2.

d. Customer Charge – What is the appropriate customer charge for each customer classification?

MAWC Position: The Company is proposing to increase monthly meter charges for a 5/8" meter to $12.00 per month, with proportionate increases to other meter sizes. The Company's cost of service analysis supports a monthly meter charge for 5/8" meters of $15.00 per month. The Company's proposal for setting the 5/8" meter charge at $12.00

represents a 50% move from current monthly meter charges towards fully cost-based monthly meter charges.

Rea Dir., p. 20; Rea Sur., p. 3-4.

e. Commodity Charge – What is the appropriate commodity charge for each customer classification?

MAWC Position: The appropriate commodity charge for each customer class is as follows:

Rate A: $0.6983 per 100 gallons – all districts

Rate J: $0.3675 per 100 gallons – all districts

Rate L: $0.2845 per 100 gallons of base usage – all districts

Rate L: $0.5690 per 100 gallons of extra usage – all districts

Rate B: $0.2611 per 100 gallons – all districts

Rea Dir., Sched. CBR-2; Rea, Sur., p. 4-5.

f. Sunnydale Rate Designation – Should Sunnydale be placed on Rate J, or in the alternative, Rate J1?

MAWC Position: No. MAWC does not believe that Sunnydale currently qualifies for Rate J and, thus, they would not qualify under the new Rate J1. However, if the Commission were to find that Sunnydale and similarly situated entities should be classified as Rate J customers, those customers usage should be included in the large user tariff group, Rate J, or Rate J1 (and not Rate A), when determining the appropriate volumetric rates.

LaGrand Reb. RD, p. 6-8.

45. **Sewer Rate Design**

   a. Sewer Districts – What is the appropriate rate structure for the sewer service districts?

MAWC Position: MAWC proposes to maintain the current four wastewater/sewer district, but to move rates closer together between each district to reduce the disparities in wastewater service rates between tariff offerings.

Rea Dir., p. 16-17, 37-39.

WHEREFORE, MAWC respectfully requests the Commission consider these Statement of Positions.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail, on February 18, 2021, to the following:

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